NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007
(DOLLARS IN THOUSANDS)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

The reporting entity "King County" consists of King County Government as the primary government; the Harborview Medical Center (HMC), the Washington State Major League Baseball Stadium Public Facilities District (PFD), and the Cultural Development Authority of King County (CDA) as "discretely presented" component units; and the Flood Control Zone Districts and four nonprofit corporations as "blended" component units. Most funds in this report pertain to the entity King County Government or component units. Certain agency funds, referred to as Agency Funds – Special Districts/Other Governments, pertain to the County's custodianship of assets belonging to independent governments and special districts. Under the County's Home Rule Charter, the King County Executive is the *ex officio* treasurer of all special districts of King County, other than cities and towns. Pursuant to County ordinance, the Director of the Finance and Business Operations Division (FBOD) is responsible for the duties of the comptroller and treasurer. Money received from or for the special districts is deposited in a central bank account. The Director of the FBOD invests or disburses money pursuant to the instructions of the respective special districts.

Component Units – Discretely Presented

Harborview Medical Center (HMC)

The Harborview Medical Center (HMC), a 413 licensed-bed hospital with extensive ambulatory services, is located in Seattle, Washington. HMC is managed by the University of Washington (UW). The HMC Board of Trustees is appointed by the County Executive. The County Director of the Finance and Business Operations Division is the treasurer of HMC. HMC staff members are employees of UW. The management contract between the HMC Board of Trustees and the UW Board of Regents recognizes the Trustees' desire to maintain HMC as a means of meeting the King County Government's obligation to provide the community with a resource for health services, and UW's desire that HMC be maintained as a continuing resource for education, training, and research. The general conditions of the management contract specify that King County retains title to all real and personal property acquired for King County with HMC capital or operating funds. The Trustees determine major institutional policies and retain control of programs and fiscal matters. The Trustees agree to secure UW's recommendations on any changes to the above. The Trustees are accountable to the public and King County Government for all financial aspects of HMC's operation and agree to maintain a fiscal policy that keeps the operating program and expenditures of HMC within the limits of operating income.

HMC is a component unit of the County for the following reasons: (1) it is a separate legal entity having its own corporate powers; (2) the County Executive appoints HMC's Board of Trustees, who may be removed only for statutorily defined causes and subject to legal appeal; and (3) although the County cannot impose its will on HMC, the unit creates a financial burden on the County because the County is responsible for the issuance and debt service of all general obligation bonds for HMC capital improvements. HMC's financial presentation is on the discrete component unit basis because the County and HMC's governing bodies are not substantively the same, and HMC does not provide services solely to King County. HMC financial data is as of its fiscal year-end, June 30, 2007, rather than the County's fiscal year-end

NOTE 1 – CONTINUED

of December 31, 2007. Therefore, Note 13 - Debt, reports on all the general obligation bonds issued by the County as of December 31, 2007, including bonds reported by HMC as a component unit as of June 30, 2007.

HMC hires independent auditors other than the County's independent auditors and prepares its own audited financial statements. These statements may be obtained from Harborview Medical Center, Finance Administration, 325 9th Avenue, Seattle, Washington 98104.

Washington State Major League Baseball Stadium Public Facilities District (PFD)

The Washington State Major League Baseball Stadium Public Facilities District (PFD) is the agency created by the Metropolitan King County Council (Ordinance 12000) on October 24, 1995, as authorized under chapter 36.100 Revised Code of Washington (RCW). The PFD operates as a municipal corporation of the State of Washington and was formed to site, design, build, and operate a major league baseball park. The PFD is governed by a seven-member board of directors, four of whom are appointed by the County Executive. The other three are appointed by the Governor of the State of Washington. The County, as the *ex officio* treasurer for the PFD, maintains several funds to account for construction, debt redemption, and special revenue collection. Construction was financed by 1997 general obligation bond issues and contributions from the Baseball Club of Seattle. Debt service on the bonds is supported by sales and use taxes, special lottery proceeds, special license plate sales, and an admissions tax. The stadium was completed in 1999 and is reported as an asset of the PFD.

The PFD is a component unit of the County for the following reasons: (1) it is a separate legal entity; (2) a majority of its board of directors (4 of 7) are appointed by the County Executive; and (3) there exists an indirect financial burden relationship between the PFD and the County since the County issued the bonds for the construction of the stadium, thereby making the County ultimately responsible for the debt. The PFD's financial statements are discretely presented because the two governing boards are not substantively the same, and the PFD does not provide services solely to King County government.

The PFD reports on a fiscal year-end consistent with the King County primary government. It issues its own financial statements, which are audited by the State Auditor. These statements may be obtained from the Public Facilities District, PO Box 94445, Seattle, Washington 98124.

Cultural Development Authority of King County (CDA)

The Cultural Development Authority of King County (CDA), dba 4Culture, is a public authority organized pursuant to chapters 35.21.730 through 35.21.759 RCW and King County Ordinance 14482. The CDA commenced operations on January 1, 2003, and began doing business as "4Culture" effective April 4, 2004. Per King County Ordinance 14482, the CDA was created "exclusively to support, advocate for and preserve the cultural resources of the region in a manner that fosters excellence, vitality, and diversity. The authority shall further the goals and objectives of the King County Comprehensive Plan, establish cultural resource policies, and operate in a manner that ensures King County citizens and visitors have access to high quality cultural programs and experiences."

The CDA is located in Seattle, Washington and is governed by a 15-member board of directors and five *ex officio* members. The directors are appointed by the County Executive and confirmed by the County Council. The CDA receives various funds from King County and other sources that are designated for arts, cultural and public art use, including a portion of the

NOTE 1 – CONTINUED

revenue generated by the King County lodging tax and one percent of King County expenditures for certain construction projects.

The CDA is a component unit of the County for the following reasons: (1) it is a separate legal entity (public authority); (2) the CDA's board of directors is appointed by the County Executive (from a non-restrictive pool of candidates) and confirmed by the County Council; and (3) the County is able to impose its will on the CDA, for example, the County has the power to remove a director from the CDA board and the power to dissolve the CDA. The CDA's financial presentation is as a discrete component unit because the County and CDA's governing bodies are not substantively the same and the CDA does not provide services solely to King County.

The CDA reports on a fiscal year-end consistent with the King County primary government. It issues its own financial statements, which are audited by the State Auditor. These statements may be obtained from the Cultural Development Authority of King County at 4Culture, 101 Prefontaine Place South, Seattle, Washington 98104.

Component Units - Blended

Flood Control Zone Districts (FCZD)

The Flood Control Zone Districts (FCZD) in King County are administered by the Water and Land Resources Division of the Department of Natural Resources and Parks. FCZDs were created under authority in chapter 86.15 RCW to manage, plan, and construct flood control facilities within district boundaries. By statute, the King County Council serves as the Board of Supervisors for each FCZD.

Although there are eleven FCZDs in King County, most of these districts are inactive and have no annual budget. Only the Green River Flood Control District was active in 2007, providing for operation and maintenance of pump stations, levees and revetments, and administration of the District.

FCZDs are component units of the County for the following reasons: (1) they are legally separate entities established as quasi-municipal corporations and independent taxing authorities; (2) King County, in effect, appoints the voting majority of the FCZD board because the County Council members are the *ex officio* supervisors of each FCZD; and (3) the County can impose its will on the FCZD. FCZD financial presentation is on a blended basis because the two governing boards are substantively the same. They do not issue independently audited financial statements. Financial statements for the FCZDs are included with other Nonmajor Special Revenue Funds in the Governmental Funds section of this CAFR.

Building Development and Management Corporations

King County has project lease agreements with four Washington state nonprofit corporations each of which are single-purpose entities that were created to assist the County in the development and construction of public buildings. Each agreement provided for the design and construction of a specific building to be financed with tax-exempt bonds issued on behalf of the County by each of the corporations in accordance with I.R.S. Revenue Ruling 63-20 and Revenue Procedure 82-26. Under the agreements the buildings are to be leased by the County from the nonprofit corporations under guaranteed monthly rent payments throughout the term of the lease or until the debt is retired after which ownership transfers to the County.

NOTE 1 – CONTINUED

These nonprofit corporations are recognized as component units of the County in accordance with GASB Statement 14. Although they have independently appointed boards, the nature and significance of their relationships with the County's primary government are such that their exclusion will cause the King County reporting entity's financial statements to be misleading or incomplete. Because they provide services (develop and manage office facilities) exclusively to the County, these corporations are reported using the "blended" method. A single internal service fund, the Building Development and Management Corporations Fund, is used to blend the four nonprofit corporations' activities and balances at December 31, 2007 with the primary government.

The nonprofit corporations and the related buildings under their management include: 1) CDP-King County III for the King Street Center building; 2) Broadway Office Properties for the Patricia Steel Memorial building; 3) Goat Hill Properties for the Goat Hill Parking Garage and the Chinook Building; and 4) NJB Properties for the Ninth and Jefferson Building (currently under construction). Separately issued and independently audited financial statements for each of these corporations may be obtained from the National Development Council, 425 4th Avenue, Suite 608, Seattle, WA 98101.

Joint Venture

The Seattle-King County Workforce Development Council (WDC) is a joint venture between King County and the City of Seattle. It was established as a nonprofit corporation in the State of Washington on July 1, 2000, as authorized under the Workforce Investment Act of 1998. It functions as the United States Department of Labor pass-through agency to receive the employment and training funds for the Seattle-King County area. The King County Executive and the Mayor of the City of Seattle, serving as the chief elected officials (CEO) of the local area, have the joint power to appoint the members of the WDC board of directors and the joint responsibility for administrative oversight. An ongoing financial responsibility exists because the CEO is potentially liable to grantors for disallowed costs. If expenditure of funds is disallowed by a grantor agency, the WDC can recover the funds from (in order): (1) the agency creating the liability; (2) the insurance carrier; (3) future program years; and (4) as a final recourse, from King County and the City of Seattle, each being responsible for one-half of the disallowed amount. As of December 31, 2007, there are no outstanding program eligibility issues that might lead to a King County liability.

The WDC contracts with King County to provide programs related to dislocated workers, welfare to work, and workforce centers. For the year 2007 WDC reimbursed King County approximately $2.0 million for the Work Training Program and $3.2 million for the Dislocated Worker Program in eligible program costs.

The WDC issues independent financial statements that may be obtained from the Workforce Development Council, 2003 Western Avenue, Suite 250, Seattle, Washington 98121-2162.

Related Organizations

The King County Library System (KCLS), the Library Capital Facility District (LCFD), and the King County Housing Authority (KCHA) are legally separate entities, though each organization is related to King County. The County Council appoints a majority of the board of the KCLS and the KCHA and selected Council members make up the 3-member board of the LCFD. There is no evidence that the Council can influence the programs and activities of these organizations or that they create a significant financial benefit or burden to the County. For these reasons, they are related organizations. The County serves as the treasurer for the KCLS and the LCFD,

NOTE 1 – CONTINUED

providing services such as tax collection and warrant issuance. Due to this fiduciary relationship, these districts are routinely reported as agency funds to distinguish from County agency funds.

Related Party Transaction

The Public Transportation Enterprise entered into a ground lease agreement as lessor with the King County Housing Authority (KCHA) for the development of affordable housing units and a parking garage in the City of Redmond. The lease provides for a set-aside of a minimum of 150 parking stalls for use by park and ride commuters.

The lease calls for an annual lease payment with a three percent increase each year, commencing with the year ended December 31, 2003. The lease payment is due within 90 days following the end of each calendar year. The annual lease payment and loan payments are payable out of net cash flow in the order and priority established in the lease before and after the minimum tax credit compliance period. A portion of the annual lease payment is restricted for use on future Federal Transit Administration projects. The term of the lease is 50 years with one option to extend for 25 years. In addition to the lease, the Public Transportation Enterprise loaned the KCHA a total of $1.5 million at different interest rates.

The Public Transportation Enterprise received lease payments of $33.8 thousand for 2007. As of December 31, 2007, the loans receivable from the KCHA, including principal and accrued interest, amounted to $1.82 million.

Government-wide and Fund Financial Statements

The government-wide financial statements (the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule include interfund services provided and used between functions which are not eliminated because to do so would misstate both the expenses of the purchasing function and the program revenues of the selling function. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses that have been allocated from general government to various functional activities are reported in a separate column. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements.

NOTE 1 – CONTINUED

Bases of Accounting, Measurement Focus, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with, or contradict guidance of, the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Rental income is operating revenue to the Airport enterprise whose principal operation is leasing real property but is non-operating to the Solid Waste enterprise because it is incidental to its principal operation of waste disposal. User fees (sewage fees, passenger fares, disposal charges, etc.) charged by the County's enterprise funds for the use of its business-type facilities and charges for services of internal service funds are classified as operating revenues. The corresponding costs of service provision and delivery — including direct administration costs, depreciation or amortization of capital assets used in operations, and other allocations of future costs (liabilities) to current year costs of operations (e.g. landfill post-closure, other postemployment benefits) — comprise operating expenses. All other revenues and expenses not meeting this definition are reported as nonoperating.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues, such as retail sales and use taxes, to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the payments are due.

Major Governmental Funds

The County reports two major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in other funds.

NOTE 1 – CONTINUED

The Public Health Fund is used to finance health service centers located throughout King County and public health programs. The Public Health Fund supports clinical health services/primary care assurance, management and business practice, population and environmental health services, and targeted community health services.

Major Proprietary Funds

The County reports two major proprietary funds:

The Public Transportation Enterprise accounts for the operations, maintenance, capital improvements, and expansion of public transportation facilities in King County under the King County Metro Transit Division. Primary revenue sources include sales tax and passenger service fees. Construction and fleet replacement are funded through sales tax, issuance of bonds, and federal grants.

The Water Quality Enterprise accounts for the operations, maintenance, capital improvements, and expansion of the County's water pollution control facilities under the King County Wastewater Treatment Division. The enterprise has two major treatment plants, the West Point Treatment Plant in Seattle and the South Treatment Plant in Renton, as well as two small facilities, the Alki Treatment Plant and one on Vashon Island. Major construction projects are funded through operating revenue, grants, state loans, and issuance of fixed and variable rate revenue bonds, commercial paper, and general obligation bonds.

Nonmajor Governmental Funds

Special Revenue Funds are used to account for a variety of County programs including alcohol and substance abuse, arts, automated fingerprint identification system, community development, road maintenance, emergency medical services, enhanced 911 emergency telephone system, local hazardous waste management, mental heath services, parks, surface water management, and other services.

Debt Service Funds are used by the County to account for the accumulation of resources for, and the payment of, principal and interest on the County's general obligation bonds.

Capital Projects Funds are used to account for the acquisition, construction, and improvement of major capital assets and other capital-related activities such as infrastructure preservation, major maintenance of building facilities, office space leasing, surface and storm management projects, technology systems, arts and historic preservation, and other projects.

Nonmajor Proprietary Funds

Enterprise Funds are used to account for the County's business-type operations, including the King County International Airport, solid waste disposal facilities, and other services.

Internal Service Funds are used to account for the provision of motor pool, data processing, risk management, construction and facilities management, financial, employee benefits programs, and other services provided by one department or agency to other departments or agencies of the County on a cost reimbursement basis. The Wastewater Equipment Rental Fund was established to serve the Water Quality Enterprise. This fund is reported under business-type activities in the government-wide statements.

NOTE 1 – CONTINUED

Fiduciary Funds

Investment Trust Funds are used to report investment activity conducted by King County on behalf of legally separate entities such as special districts and public authorities that are not part of the County's reporting entity.

King County recognizes two major classifications of Agency Funds: (1) those used with the operations of county government such as Undistributed Taxes Fund and Accounts Payable Clearing Fund; and (2) those which account for cash received and disbursed in the County's capacity as ex *officio* treasurer or collection agent for special districts and other governments such as school districts and fire districts.

Terminology

General Revenues and General Governmental Expenditures

General revenues and general governmental expenditures used in this report are total revenues and expenditures for three governmental fund types: (1) General Fund; (2) Special Revenue Funds; and (3) Debt Service Funds. The revenues and expenditures for all other fund types are excluded from these amounts.

Expenditure Functions

General Government Services – Provided by the legislative and administrative branches of the government entity for the benefit of the public or governmental body as a whole. This function includes the County Council, County Executive, Office of Budget, Information and Administrative Services, Records and Elections, Human Resource Management, and Assessments.

Law, Safety and Justice – Essential to the safety of the public, including expenditures for law enforcement, detention and/or correction, judicial operations, protective inspections, emergency services, and juvenile services. This function includes the Sheriff's Office, Prosecuting Attorney, Superior Court, District Court, Public Defense, Judicial Administration, Adult and Juvenile Detention, and Emergency Medical Services.

Physical Environment – Provided to achieve a satisfactory living environment for the community and the individual. This function includes Natural Resources, River Improvement, Animal Control, Surface Water Management, and River and Flood Control Construction.

Transportation – Provided by the governmental entity for the safe and adequate flow of vehicles and pedestrians that includes expenditures for road and street construction, maintenance, transportation facilities and systems, and general administration. This function includes County Road, Arterial Highway Development, Renton Maintenance Facilities Construction, and County Road Construction.

Economic Environment – Provided for the development of, and improvement in, the welfare of the community and individual that includes expenditures for employment opportunity and development, veterans' services, childcare services, and aging and handicapped services. This function includes Veterans' Relief, Youth Employment Programs, Office of Aging, Women's Programs, Development and Environmental Services, and Planning and Community Development.

NOTE 1 – CONTINUED

Mental and Physical Health – Provided to promote healthy people and healthy communities by preventing and treating mental, physical, and environmentally induced illnesses. This function includes expenditures for community mental health, communicable diseases, environmental health, public health clinics and programs, alcoholism treatment, drug abuse prevention, programs for the mentally disabled and mentally ill, the medical examiner, hospitals, and jail health services. This function also includes regional local hazardous waste management.

Culture and Recreation – Provided to increase the individual's understanding and enjoyment that includes expenditures for education, libraries, community events, recreation, park facilities, and cultural and recreational facilities. This function includes Parks, Cooperative Extension Service, and various Park Capital Project Funds.

Debt Service – Accounts for the redemption of general long-term debt principal and interest and other debt service costs in the General, Special Revenue, Debt Service, and Capital Projects Funds and payments to escrow agents other than refunding bond proceeds.

Capital Outlay – Accounts for expenditures related to capital projects and expenditures for capital assets acquired by outright purchase and by capital lease financing agreements.

Certain Accounts are Grouped on the Statement of Net Assets:

- The asset account *Receivables, net* combines Taxes receivable – delinquent; Accounts receivable, net; Other receivables, net; Interest receivable; Notes and contracts receivable; and Due from other governments, net.
- The asset account *Deferred charges* combines Deferred charges – environmental remediation costs, Deferred charges – issuance costs, and Due from employees.
- The liability account *Accounts payable and other current liabilities* combines Accounts payable, Due to other governments, Taxes payable, Contracts payable, Custodial accounts, and other liabilities.
- The liability account *Accrued liabilities* combines Wages payable and Interest payable.
- The liability account *Noncurrent liabilities* includes Claims and judgments payable, Estimated claim settlements, General obligation bonds, Special assessment bonds, Revenue bonds payable, Excess earnings liabilities, Capital leases, State revolving loan payable, Compensated absences, Environmental and property remediation, Unamortized premium/discount on bonds sold, Deferred charges – refunding losses, and other liabilities.

Cash and Cash Equivalents

Cash and cash equivalents consists of: Cash and pooled investments, Petty cash/change funds, Cash with escrow agent, and Cash held in trust.

All County funds and most component units and special districts participate in the King County Investment Pool (the Pool) maintained by the King County Treasury Operations Section. (See Note 4, "Deposits, Investments and Receivables.") The Pool consists of internal and external portions. For Pool participants, the Pool functions essentially as a demand deposit account where participants receive an allocation of their proportionate share of pooled earnings. Each fund's equity share of the internal portion of the Pool's net assets is reported on the balance

NOTE 1 – CONTINUED

sheet as Cash and cash equivalents and reflects the change in fair value of the corresponding investment securities. Included in the internal portion of the Pool is the investment of short-term cash surpluses not otherwise invested by individual funds. The interest earnings related to this investment of short-term cash surpluses are allocated to the General Fund in accordance with legal requirements and are used in financing general County operations.

Investments

In addition to pooled investments described under Cash and cash equivalents, King County holds other investments in qualified public depositories for County government and special districts for which, either by Washington state law or by contract, King County is the custodian. Money is invested as directed by the governing authority for the fund or agency and proceeds are returned to the investing fund.

Investments purchased for individual funds are reported as investments, regardless of length of maturity. Those attributed to both the external portion of the Pool and those in individual investment accounts are classified as "Investments" in separate investment trust funds. Statements of participants in the Pool's internal portion report pooled investments as cash equivalents. Statements of participants in the external portion report pooled investments as "Assets held in trust – external investment pool." Special district funds with individual investment accounts report their portion of net assets as "Assets held in trust – individual investment accounts." Investments are reported at fair value in compliance with the GASB Codification, Section I50.105, which provides for reporting investments of governmental entities using fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. (See Note 4, "Deposits, Investments and Receivables.")

Receivables

Receivables include charges for services rendered by the County or intergovernmental grants. All unbilled service receivables are recorded at year-end. The provisions for estimated uncollectible receivables are reviewed and updated at year-end. These provisions are estimated based on an analysis of an aging of the year-end Accounts receivable balance and/or the historical rate of uncollectibility.

Taxes Receivable – Property taxes levied for the current year are recorded on the balance sheet as Taxes receivable and Deferred revenues at the beginning of the year. Property taxes are recognized as revenue when collected in cash at which time the balance sheet accounts, Taxes receivable and Deferred revenues, are reduced by the amount of the collection. The amount of taxes receivable at year-end that would be collected soon enough to be used to pay liabilities of the current period is not material. At year-end all uncollected property taxes are reported on the balance sheet as Taxes receivable – delinquent and Deferred revenues.

Abatements Receivable – The Abatements receivable account records the unpaid abatement costs due the County from violations reported by the Code Enforcement Section on property within the County. Revenue is recognized when payment is made. Abatement costs may be certified to the property tax parcel; as a result, these might not be paid until the property is sold, which can take years.

Civil Penalties Receivable – The Civil Penalties receivable account records the unpaid civil penalty costs due the County from violations reported by the Code Enforcement Section within

NOTE 1 – CONTINUED

the County. Revenue is recognized when payment is made. Liens may be filed against the property and may be released once the fees are paid.

Assessments Receivable – In the governmental funds, unpaid assessments are reported in three accounts: Current, Delinquent, and Deferred. Current assessments are those due within one year, Delinquent assessments are past due, and Deferred assessments are due in the future. Revenues from the assessments are recognized as they become current; that is, both measurable and available to finance expenditures of the current period.

Short-term Interfund Receivables and Payables – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "Interfund short-term loans receivable/payable," (the current portion of interfund loans), or "Advances to/from other funds," (the non-current portion of interfund loans). All other outstanding balances between funds are reported as "Due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "Internal balances."

Advances to Other Funds – Noncurrent portions of long-term interfund loans receivable are reported as Advances. In governmental funds they are offset equally by a fund balance reserve account that indicates they do not constitute expendable available financial resources and are not available for appropriation.

Inventories

Inventories of governmental funds are recorded using the consumption method. This approach has characteristics of accrual accounting which initially report the inventories purchased as assets and defer the recognition of expenditure until the inventories are actually consumed. Proprietary funds expense inventories when used or sold. The valuation methods used by funds in King County are outlined below:

First-in, First-out valuation method, which assumes the first inventory purchased is the first consumed, is used by the Solid Waste, King County International Airport, Radio Communications, Construction and Facilities Management, and Public Health Funds.

The Weighted (Moving) Average valuation method, which takes the total cost of the inventory and divides it by the total number of units, is used by Motor Pool Equipment Rental, Public Works Equipment Rental, and the Public Transportation and Water Quality Enterprises.

The last physical count of these inventories was as of December 2007, except for the inventories of the Public Transportation and Water Quality Enterprises, which use cycle counting. Cycle counting takes physical counts of inventory throughout the year.

Prepayments

Payments made to vendors for services that will benefit periods beyond December 31, 2007 (or June 30, 2007, for Harborview Medical Center), are recorded as prepaid items.

Capital Assets

Capital assets include: Land (fee simple land, right-of-way and easements, and farmland development rights); Infrastructure (roads and bridges network); Buildings; Improvements other than buildings; Furniture, machinery and equipment; and Work in progress. General capital

NOTE 1 – CONTINUED

assets, including those in internal service funds that support governmental funds, are reported in the governmental column of the government-wide statement of net assets. Capital assets of enterprise funds, including those in internal service funds that exclusively support enterprise funds, are reported in the business-type column of the government-wide Statement of Net Assets. Enterprise and internal service fund capital assets are also reported in the individual proprietary fund balance sheets. For 2007, the capitalization threshold in the King County Primary Government is $1 thousand.

The County's general capital infrastructure, which consists of the entire network of roads and bridges, was initially reported in 2002. The base value at the beginning of 2002 included the estimated cost of all infrastructure and related right-of-way including those acquired prior to December 31, 1980. Because the County is committed to maintaining the infrastructure indefinitely, it has elected to use the modified approach to infrastructure reporting in lieu of the depreciation method. The County is eligible to use the modified approach because it has an asset management system in place that allows for constant monitoring of the infrastructure to ensure that they are maintained and preserved at the predetermined condition level set by the Road Services Division of the Department of Transportation. The asset management system tracks the number, mileage, condition, and the actual and planned maintenance and preservation costs of individual infrastructure elements (road segments and bridges).

Certain equipment and facilities used in Solid Waste Enterprise landfill closure and post-closure activities are not reported as capital assets. Instead, the liability for landfill post-closure care is reduced by the extent of these costs.

Capital assets are valued at historical cost or estimated historical cost where actual historical cost is not available. Donated capital assets are valued at their estimated fair market value at the time of donation. Expenditures for maintenance and repairs that do not add to the value of the assets or materially extend their lives are expensed as incurred. Expenditures for repairs and upgrades that materially add to the value or life of an asset are capitalized. Costs incurred to extend the life of governmental infrastructure assets (roads and bridges) are considered preservation costs and are therefore not capitalized.

Governmental capital assets other than land, infrastructure, and artwork are depreciated in accordance with GASB Statement No. 34. As with business-type capital assets, i.e., Enterprise and Internal Service Funds, provision is made for depreciation over the estimated useful lives of the depreciable assets using the straight-line method.

NOTE 1 – CONTINUED

Capital assets and their components have been depreciated over their estimated useful lives as follows:

Description	Depreciation Method	Estimated Useful Life
Buildings – constructed	Straight-line	40 to 60 years
Buildings, transfer stations, shops scales offices, etc.	Straight line	10 to 30 years
Buses and trolleys	Straight-line	12 to 18 years
Cars, vans, and trucks	Straight-line	5 to 8 years
Data processing equipment	Straight-line	3 to 10 years
Downtown transit tunnel	Straight-line	50 years
Heavy equipment	Straight-line	7 to 15 years
Medical equipment	Straight-line	3 to 20 years
Office equipment	Straight-line	3 to 20 years
Sewer lines	Straight-line	50 years
Shop equipment	Straight-line	5 to 20 years
Telecommunication equipment	Straight-line	6 to 10 years

Deferred Charges

The government-wide financial statements and proprietary fund types in the fund financial statements defer expenditures for debt issuance, which are amortized over the life of the respective bond issues. The Public Transportation Enterprise includes certain amounts due from employees as deferred charges. The Water Quality Enterprise defers environmental remediation costs, which are amortized over 30 years. The Building Development and Management Corporations Fund defers organizational start-up costs and amortizes over 5 years. Both the government-wide and proprietary fund types in the fund financial statements defer bond premiums, discounts, and refunding losses, which are reported in the Statement of Net Assets under Noncurrent liabilities and in the fund financial statements under Long-term liabilities.

Deferred Revenues

Deferred revenues include: (1) amounts collected before revenue recognition criteria are met, such as deferred parks program revenue and building and land development permit fees (unearned revenues); (2) receivables and uncollected delinquent taxes that, under the modified accrual basis of accounting, are measurable but not yet available; and (3) a Water Quality Enterprise rate stabilization reserve (see next section on regulatory deferrals).

Regulatory Deferrals

The King County Council has taken various regulatory actions resulting in differences between the recognition of revenues for rate-making purposes and their treatment under generally accepted accounting principals for nonregulated entities. Changes to these balances and their inclusion in rates may occur only at the direction of the Council.

In 2005, pursuant to Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 71 (FAS 71), *Accounting for the Effects of Certain Types of Regulation*, the Council established a Rate Stabilization Reserve. This action created a

NOTE 1 – CONTINUED

regulatory liability which deferred $14.5 million from 2005 operating revenue to be set aside in a reserve and recognized in subsequent years to maintain stable sewer rates. In 2007, an additional $8.2 million in revenue was deferred.

In 2006, the Council approved the application of FAS 71 to treat pollution remediation obligations as regulatory assets, in lieu of current expense. Based on revised cost estimates for pollution remediation obligations, $3.5 million was capitalized as regulatory asset. In 2007, an additional $2 million was capitalized as regulatory asset. The two separate assets will be amortized over a period of 30 years.

Rebatable Arbitrage

The County's tax-exempt debt is subject to arbitrage restrictions as defined by the Internal Revenue Code. All of the County's bonded debts are tax-exempt except four taxable debts as identified in Note 13 – Debt, Schedule of Long-term Debt. Arbitrage occurs when the funds borrowed at tax-exempt rates of interest are invested in higher yielding taxable securities. These interest earnings in excess of interest expense must be remitted to the federal government except when spending exceptions rules are met. The County does not recognize a liability for arbitrage at the fund level unless this liability is due and payable at the end of the year. At the government-wide level, the liability is recognized during the period the excess interest is earned.

Compensated Absences

Eligible King County employees earn 12 days of sick leave and 12 to 30 days of vacation per year, depending on the individual employee's length of service and other factors. An unlimited amount of sick leave and a maximum of 60 days of vacation may be accrued. An employee leaving the employ of King County is entitled to be paid for unused vacation leave and, if retiring as a result of length of service or terminating by reason of death, for 35 percent of the value of unused sick leave. For reporting purposes, a variety of factors are used to estimate the portion of the accumulated sick leave that is subject to accrual.

A liability is accrued for estimated excess compensation liabilities to the Washington State Department of Retirement Systems based on an employee's accrued vacation and sick leave. An excess compensation liability is incurred when any employee whose retirement benefits are based in part on excess compensation receives a termination or severance payment defined by the State as excess compensation. This includes, but is not limited to, a cashout of unused annual leave in excess of 240 hours and a cashout of any other form of leave.

All vacation pay liability and a portion of sick leave liability is accrued in the government-wide and proprietary statements.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets. Bond premiums and discounts, refunding losses, as well as issuance costs, are deferred and amortized over the life of the bonds using outstanding principal balance method. Bonds payable are reported net of the applicable bond premium or discount. Bond refunding losses and issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums, discounts, as well as bond issuance cost, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums on debt issuances are reported as

NOTE 1 – CONTINUED

other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reserves of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Component Units – Summary of Significant Accounting Policies

Harborview Medical Center (HMC)

Harborview Medical Center (HMC), as a county hospital within the Municipal Corporation of King County, maintains its own distinct set of accounting records. HMC's financial statements are prepared in accordance with governmental generally accepted accounting principles. In addition, based on GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, HMC has elected to apply the provision of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The HMC financial statements are reported as a business-type activity, as defined by GASB Statement No. 34, *Basic Financial Statements–and Management's Discussion and Analysis–for State and Local Governments*. Harborview Medical Center's Statement of Net Assets and Statement of Activities reflect its financial position as of June 30, 2007.

Land, buildings, and equipment are stated at historical cost. Improvements and replacements of buildings and equipment are capitalized. Maintenance and repairs are expensed. The provision for depreciation is the straight-line method, which allocates the historical cost of capital assets over their estimated useful lives. Upon disposal, capital assets and the related accumulated depreciation are removed from the accounts and the resulting gain or loss is recorded. Interest incurred on funds borrowed by HMC during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. No interest was capitalized during 2007.

HMC, as an instrumentality of the State of Washington, is not subject to federal income taxes under Section 115 of the Internal Revenue Code unless unrelated business income is generated during the year.

Washington State Major League Baseball Stadium Public Facilities District (PFD)

The PFD uses the accrual basis of accounting. Expenses are recorded at the time liabilities are incurred and revenues are recorded when earned.

Cash and cash equivalents consist of cash and pooled investments managed by the King County Treasury Operations Section. The King County Treasury Operations Section Manager pools and invests all short-term cash surpluses not otherwise invested by individual funds of the County. Earnings from these pooled investments are allocated to the PFD based upon its share of equity in the Pool.

Capital assets include the Baseball Stadium and furniture, machinery, and equipment. The Baseball Stadium includes all costs associated with the development and construction of the ballpark project. Development costs include District staffing and related operating costs,

NOTE 1 – CONTINUED

architect and engineering fees, environmental consulting fees, and all other costs related to the development of the ballpark project.

Capital assets are valued at historical cost. Only interest on interim financing during pre-construction and construction is capitalized.

Capital assets are depreciated on a straight-line basis based on their estimated useful lives. Furniture and equipment are depreciated over three or five years. The Baseball Stadium is depreciated over 40 years from the date it was placed in service.

District employees earn 12 days of sick leave and 10 to 15 days of vacation per year, depending on the individual employee's length of service. An unlimited amount of sick leave may be accrued and two times the annual vacation allotment may be accrued. An employee leaving the employ of the PFD is entitled to be paid for all unused vacation. Unused sick leave is forfeited upon termination of employment. The accrual for unused vacation is included in wages payable in the accompanying balance sheet.

Cultural Development Authority of King County (CDA)

The CDA maintains its own distinct set of accounting records. It is required to maintain its financial records using the accrual basis of accounting in conformity with restrictions or designations imposed by the State municipal corporation laws.

The CDA's accounts are organized into an operating fund, several program funds, and a restricted fund (Cultural Endowment Fund).

- Operating Fund – used to pay for the CDA's administrative support.
- Program Funds – used to segregate different revenue sources and to comply with expenditure requirements.
- Cultural Endowment Fund – consists of 40 percent of the Hotel/Motel tax revenue allocation to the CDA. The principal portion of the fund is permanent and irreducible. Interest earnings in the fund are available for the support of the arts, the performing arts, art museums, heritage museums and cultural museums of King County.

The CDA, as an instrumentality of the State of Washington, is not subject to federal income taxes under Section 115 of the Internal Revenue Code unless unrelated business income is generated during the year.

CDA employees earn 12 sick days per year and 12 to 30 days of vacation per year, depending on length of service. An unlimited amount of sick leave and 30 days of vacation may be accrued. Unused sick leave is forfeited upon termination of employment.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the Governmental Funds Balance Sheet and the Government-wide Statement of Net Assets:

The governmental funds balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, "Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this $912,387 thousand difference are as follows (in thousands):

Bonds payable	$ 815,706
Less: Deferred charge on refunding (to be amortized as interest expense)	(12,932)
Deferred charge for issuance costs (to be amortized over life of debt)	(4,096)
Plus: Unamortized premiums on bonds sold	26,172
Special assessment debt	15
Accrued interest payable	5,823
Capital leases payable	4,324
Compensated absences	70,866
Unemployment compensation payable	1,051
Other postemployment benefits	5,340
Rebatable arbitrage	118
Net adjustment to reduce *fund balance – total governmental funds* to arrive at *net assets – governmental activities*	$ 912,387

Explanation of certain differences between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities:

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this $46,866 thousand difference are as follows (in thousands):

Capital outlay	$ 74,135
Depreciation expense	(27,269)
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 46,866

NOTE 2 – CONTINUED

Another element of that reconciliation states, "The net effect of various miscellaneous transactions involving capital assets (e.g., sales, trade-ins, and donations) is to increase net assets." The details of this $40,014 thousand difference are as follows (in thousands):

In the statement of activities, only the gain on the sale of capital assets is reported. In the governmental funds, the proceeds from the sale increase financial resources. The change in net assets differs from the change in fund balance by the book value of the capital assets sold.	$ (18,076)
Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	57,784
Book value of capital assets transferred from business-type activities	2,200
Book value of capital assets transferred to business-type activities	(1,894)
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 40,014

Another element of that reconciliation states, "Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds." The details of this $302 thousand difference are as follows (in thousands):

Property tax accrual	$ 67
Surface Water Management service charge accrual	196
Probation and parole service charge accrual	35
Work release service charge net accrual	(19)
Fines and forfeits net accrual	23
Net adjustment to increase *net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities*	$ 302

NOTE 2 – CONTINUED

Another element of that reconciliation states, "The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this $49,137 thousand difference are as follows (in thousands):

Debt issued or incurred	
Issuance of general obligation bonds	$ (48,395)
Issuance of refunding bonds	(54,565)
Premium on bonds issued	(3,890)
Bond issuance costs	738
Principal repayments	87,195
Receipts from component units for principal repayments	(1,079)
Payment to escrow agent for refunding	69,133
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 49,137

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this $6,820 thousand difference are as follows (in thousands):

Claims and judgments	$ (700)
Compensated absences	2,054
Accrued unemployment compensation	(296)
Other postemployment benefits	5,340
Accrued rebatable arbitrage	(59)
Accrued interest	845
Amortization of issuance costs	725
Amortization of deferred charge on refunding	3,511
Amortization of bond premiums	(4,600)
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 6,820

NOTE 2 – CONTINUED

Another element of that reconciliation states, "Net revenues and expenses of certain activities of internal service funds are reported with governmental activities." The details of this $1,513 thousand difference are as follows (in thousands):

Investment interest earnings	$ 7,283
Revenues related to services provided to outside parties	3,113
Expenses related to services provided to outside parties	(3,028)
Gain on disposal of capital assets	897
Interest on long-term debt	(10,377)
Capital contributions	1,904
Transfers in	1,620
Transfers out	(5,751)
Internal service fund losses allocated to governmental activities	5,852
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 1,513

Explanation of certain differences between the Proprietary Funds Statement of Net Assets and the Government-wide Statement of Net Assets:

The proprietary funds statement of net assets includes a reconciliation between *net assets – total enterprise funds* and *net assets of business-type activities* as reported in the government-wide statement of net assets. The description of the reconciliation is "Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds." The assets and liabilities of one internal service fund, Wastewater Equipment Rental Fund, are included in the business-type activities in the statement of net assets because the fund was established to serve the Water Quality Enterprise. The details of this $592 thousand difference are as follows (in thousands):

Net assets of the business-type activities internal service fund	$ (8,773)
Internal receivable representing charges in excess of cost to the enterprise funds by the governmental activities internal service funds – prior years	13,641
Internal payable representing the amount undercharged to the enterprise funds by the governmental activities internal service funds – current year	(4,276)
Net adjustment to decrease *net assets – total enterprise funds* to arrive at *net assets of business-type activities*	$ 592

NOTE 2 – CONTINUED

Explanation of certain differences between the Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Assets and the Government-wide Statement of Activities:

The proprietary funds statement of revenues, expenses, and changes in fund net assets includes a reconciliation between *change in net assets – total enterprise funds* and *change in net assets of business-type activities* as reported in the government-wide statement of activities. The description of the reconciliation is "Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds." The details of this $4,768 thousand difference are as follows (in thousands):

Investment interest earnings	$ 153
Revenues related to services provided to outside parties	121
Expenses related to services provided to outside parties	(118)
Gain on disposal of capital assets	119
Transfers out	(51)
Internal service fund losses allocated to business-type activities	4,544
Net adjustment to increase *change in net assets – total enterprise funds* to arrive at *change in net assets of business-type activities*	$ 4,768

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Bases of Budgeting

With the exception of the reconciling items described in the Reconciliation of Budgetary Basis and Generally Accepted Accounting Principles (GAAP) Basis Statements and Schedules section of this note, King County uses the modified accrual basis of budgeting for the General Fund and most Debt Service and Special Revenue Funds. Revenues are estimated on the basis of when they become susceptible to accrual. Budgeted appropriations include both Expenditures and Other financing uses; they are budgeted based on liabilities expected to be incurred in the acquisition of goods and services. These are annual budgets applicable to the current fiscal year.

Twenty-two Special Revenue Funds have annual budgets with budgeting methods identical to the General Fund and are presented in the budget and actual schedules in this report.

Two Special Revenue Funds (the Community Development Block Grant Fund and the Miscellaneous Grants Fund) do not have an annual budget. Budgets within these funds are on a multi-year basis with the budget for a particular program covering one or more fiscal years. Total revenues and expenditures for the program are budgeted at its inception and any unexpended balance at the end of the fiscal year is reappropriated to the next fiscal year.

The Flood Control Zone Districts Funds are not budgeted. These funds account for four flood control zone districts' activities in accordance with chapter 86.15 RCW.

The Parks Trust and Contribution Fund is not budgeted. This fund accounts for gifts, bequests, and donations of money to the County for parks and recreation purposes and was set up pursuant to Ordinance 14509, the Parks Omnibus Ordinance.

The Road Improvement Districts Maintenance Fund is not budgeted. This fund reports the road district maintenance assessment activity in accordance with chapter 36.88 RCW.

The Treasurer's Operations and Maintenance Fund, pursuant to RCW 84.56.020, is not budgeted.

Four Debt Service Funds have annual budgets. Three have annual budgets with budgeting concepts identical to the General Fund. One of these, the Limited General Obligation Bond Redemption Fund, includes budgeting and accounting for expenditures related to proprietary fund debt service payments. The fourth budgeted Debt Service Fund, the Road Improvement Guaranty Fund, is budgeted only in the exceptional case of transfers of surplus to the County Road Fund.

The Road Improvement Districts Special Assessment Debt Redemption Fund is not budgeted. This fund reports road improvement districts' special assessments revenues and debt service expenditures in accordance with chapter 36.88 RCW.

All funds in the Capital Projects Fund type, except the Road Improvement Districts Construction Fund are controlled by multi-year budgets. However, capital budget appropriations are canceled at the end of the year unless the County Executive submits to the County Council the report of the final year-end reconciliation of expenditures for all capital projects on or before March 1 of the year following the year of the appropriation and each year thereafter in which the appropriation remains open.

The Road Improvement Districts Construction Fund is not budgeted. This fund reports capital improvement assessments construction activity in accordance with chapter 36.88 RCW.

The Enterprise and Internal Service Funds (with the exception of the Insurance Fund and the Building Development and Management Corporations Fund) are budgeted on the modified

NOTE 3 – CONTINUED

accrual basis rather than the accrual basis (the GAAP basis for proprietary funds). Appropriations are based on an estimate of expenditures expected to be incurred in the acquisition of goods and services during the fiscal year. Estimated revenues are based on the amount estimated to be earned and available during the fiscal year.

The Insurance Fund is budgeted on the modified accrual basis with one exception. Consistent with the intent of the County ordinance that delegates full claims settlement authority to the County Executive, the recognition of the portion of judgment and claim settlements that occurs and remains unpaid at the end of a fiscal year, and exceeds current year expenditure appropriations, is deferred to the following year when the claim is paid. In 2007 no judgment and claim settlement recognition was deferred to a future period on the budgetary basis due to insufficient appropriations in 2007.

The Building Development and Management Corporations Fund which is used to blend four nonprofit corporations' activities and balance with the primary government is not budgeted.

The Trust and Agency Funds are not budgeted.

Encumbrances

Encumbrances outstanding as of December 31, 2007, are shown in the following schedule by fund type (in thousands):

General Fund	$ 10,130
Public Health Fund	290
Special Revenue Funds	21,865
Capital Projects Funds	51,015
Enterprise Funds	5,134
Internal Service Funds	5,885
Total All Funds	$ 94,319

Reconciliation of Budgetary Basis and GAAP Basis Statements and Schedules for Governmental Funds

In the General and budgeted Special Revenue and Debt Service Funds, the legally prescribed budgetary basis differs from the GAAP basis. For those statements and schedules in which budget comparisons are presented, the legally adopted budget is compared with actual data on the budgetary basis rather than the GAAP basis. Budget to actual statements and schedules of the governmental funds include an explanation of the differences between the two bases. All statements that do not have budget comparisons are prepared on the GAAP basis.

Budgeted Level of Expenditures

Appropriations are authorized by ordinance, generally at the fund level, with the exceptions of the General Fund and four Special Revenue Funds (the Community Development Block Grant, County Road, Developmental Disabilities, and Miscellaneous Grants Funds), which are appropriated at the department/division level, and Capital Projects Funds, which are appropriated at the project level.

These are the legal levels of budgetary control. Unless otherwise provided by the appropriation ordinances, all unexpended and unencumbered annual appropriations lapse at the end of

NOTE 3 – CONTINUED

the year. The budgetary comparison schedules (budgetary basis) include variances at the function of expenditure level. These variances are presented for informational purposes only and, if negative, do not constitute a legal violation. Administrative control is guided by the establishment of more detailed line item budgets.

Expenditures including Other Financing Uses, in Excess of Amounts Legally Authorized

Funds with Multi-year Budgets

Seventy capital projects in twenty-six Capital Projects and Enterprise Funds with multi-year budgets have a combined total of $8.3 million of expenditures in excess of budget. These deficits are expected to be corrected by additional appropriations in 2008.

Funds with Annual Budgets

All funds and departments/divisions with annual budgets completed the year within their legally authorized expenditures, including other financing uses.

Fund Balance and Net Asset Deficits

Building Construction and Improvement Fund – The deficit of $33.6 million is the result of temporary short-term financing of critical building improvement projects through the issuance of bond anticipation notes which are reported as a fund liability. When the replacement G.O. bonds are issued, the fund balance deficit will be eliminated.

Building Development and Management Corporations – The deficit of $5.2 million was due to bond interest payments made during the first few years of bond issuance when buildings are still under construction and monthly rent payments have not yet commenced. Lease revenue bonds normally include three years of capitalized interest to fund the initial interest costs.

Building Repair and Replacement Fund – The deficit of $1.3 million is the result of unanticipated costs in certain building and improvement projects. Transfers from other funds will cover the deficit in 2008.

County Road Fund - The $8.5 million deficit was the result of $3.5 million in land sales that did not occur as projected in 2007 of which $2.4 million have already taken place in 2008 with the remainder to take place by the end of the year; and approximately $5 million in federal storm repair grants programmed but not received in 2007 and expected to be provided in 2008.

Road Improvement Districts Construction Fund – The deficit of $22 thousand is the result of using short-term debt to finance the various projects of the road improvement districts. As capital projects are completed, short-term debt is replaced by long-term bonds thereby eliminating the deficit.

Printing/Graphic Arts Services Fund – The deficit of $2.0 million is the result of not covering costs in printing and graphics. Printing and graphics operations were discontinued effective December 31, 2007. The deficit will be recovered through charges to user agencies over a three-year period.

Safety and Workers' Compensation Fund – The deficit of $26.7 million is the result of a change of the method in 2004 for estimating workers' compensation claim liabilities from using the case reserves liabilities to an actuarially developed liabilities estimate. The change resulted in a large increase in the reported liabilities and related expenses in 2004. The funding plan developed to build the assets to equal the liabilities over a number of years has made significant progress reducing the deficit in each year since its inception. A further reduction is budgeted in 2008.

NOTE 4 – DEPOSITS, INVESTMENTS AND RECEIVABLES

Deposits

The County maintains deposit relationships with several local commercial banks and thrift institutions in addition to its concentration bank. All deposits not covered by the Federal Depository Insurance Corporation (FDIC) are covered by the Public Deposit Protection Commission of the State of Washington (PDPC). The PDPC is a statutory authority established under chapter 39.58 RCW. It constitutes a multiple financial institution collateral pool that can make *pro rata* assessments to all public depositaries within the state of up to 10 percent of all their public deposits. There is no current provision for PDPC to make additional *pro rata* assessments if needed to cover a loss. Therefore, in accordance with GASB *Codification of Governmental Accounting and Financial Reporting Standards*, Section I50.110, PDPC protection is of the nature of collateral, not of insurance. Pledged securities under the PDPC collateral pool are held by the County's agent in the name of the County. Some large depositaries hold public deposits in amounts in excess of the market value of the entire PDPC collateral pool. To the extent that uninsured public deposits of a financial institution exceed the PDPC's total value, equivalent proportions of the County's deposits in those institutions are exposed to custodial credit risk because they are uninsured and uncollateralized. Determination of these amounts is based on the conservative assumption that none of the excess public deposits is covered by FDIC insurance. Although such risk is recognized, the PDPC provides additional protection by maintaining strict standards as to the amount of public deposits financial institutions can accept, and by monitoring the financial condition of all public depositaries and optimizing collateralization requirements.

Custodial credit risk – Deposits The custodial credit risk for deposits is the risk that, in the event of a bank failure, the County's deposits may not be recovered. State statutes require that certificates of deposit be placed in qualified public depositaries in the State of Washington and provides that the total deposits cannot exceed the net worth of the financial institution. The County establishes deposit limitations for all financial institutions with which deposits are placed, based on publications by IDC Financial Publishing Company. At year-end, the County has $845 million of certificates of deposit of which $745 million (88 percent) were rated "Superior" and $100 million (12 percent) were rated "Excellent" by IDC. The County's diversification policy limits the maximum amount of investment in certificates of deposit to 20 percent of the total amount of the portfolio and 7.5 percent of a single issuer.

As of December 31, 2007, King County Primary Government's total deposits were $1.04 billion in carrying amount and $1.02 billion in bank balance, of which $506.2 million was exposed to custodial credit risk as uninsured and uncollateralized as shown in the following schedule (in thousands):

	Carrying Amount	Bank Balance	Uninsured and Uncollateralized
Demand Deposits	$ 48,163	$ 27,138	$ 10,751
Money Market Deposits	173,968	173,961	173,759
Certificates of Deposit	816,290	816,290	321,716
Total deposits	$1,038,421	$1,017,389	$ 506,226

The money market deposits are cash held with trustee for four Washington state nonprofit corporations reported in the internal service funds as Building Development and Management Corporations, a blended component unit of King County. The cash held in various financial institutions, including most notably the Bank of New York Trust Company (Trustee), is invested in

NOTE 4 – CONTINUED

United States Government Money Market accounts. Of the $174 million total money market deposits, $173.8 million are exposed to custodial credt risk as uninsured and uncollateralized.

Investments

For investment purposes, the County pools the cash balances of County funds and participating component units, and allows for participation by other legally separate entities such as special districts, for which the County is *ex officio* treasurer, and public authorities. The King County Investment Pool (the Pool), administered by the King County Treasury Operations Section, is an external investment pool. The external portion of the Pool (the portion that belongs to special districts and public authorities other than component units) is reported in an Investment Trust Fund. It is County policy to invest all County funds in the Pool. All non-County participation in the Pool is voluntary.

State statutes authorize King County to invest in savings or time accounts in designated qualified public depositaries or in certificates, notes, or bonds of the United States. The County is also authorized to invest in other obligations of the United States or its agencies or of any corporation wholly owned by the government of the United States. Statutes also authorize the County to invest in bankers' acceptances purchased on the secondary market, in federal home loan bank notes and bonds, federal land bank bonds and federal national mortgage association notes, debentures and guaranteed certificates of participation or the obligations of any other government-sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve System. The County can also invest in commercial paper (within the policies established by the State Investment Board); debt instruments of banking institutions, local and state general obligations, and revenue bonds issued by Washington State governments that are rated at least "A" by a nationally recognized rating agency.

The County voluntarily invests in the Washington State Treasurer's Local Government Investment Pool (LGIP). The amount is carried at cost, which approximates fair value. The LGIP is a 2a7-like pool that is overseen by the Office of the State Treasurer, the State Finance Committee, the Local Government Investment Pool Advisory Committee, and the Washington State Auditor's Office. The LGIP also contracts for an annual outside independent audit.

The County is authorized to enter into repurchase and reverse repurchase agreements. The County investment policies require that securities underlying repurchase agreements must have a market value of at least 102 percent of the cost of the repurchase agreement for investment terms of less than 30 days, and 105 percent for terms longer than 30 days. Repurchase agreements in excess of 60 days and reverse repurchase agreements exceeding 180 days are not allowed. Currently, the County's tri-party custodial bank monitors compliance with these provisions. The County has not entered into yield maintenance repurchase agreements.

<u>Reverse Repurchase Agreements</u> Statutes permit the County Investment Pool to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. County policy prohibits the use of these agreements as a borrowing mechanism. The investments under reverse repurchase agreements represent the collateral securities transferred to the lender in exchange for the cash received and used to purchase other securities with the same maturities as the collateral securities, resulting in a matched position. As of December 31, 2007, there were no reverse repurchase agreements outstanding.

NOTE 4 – CONTINUED

Derivatives The County operates under the GASB's *Codification,* Section 2300.601, definition of derivatives and similar transactions. During the year, the County did not buy, sell, or hold any derivative or similar instrument except for certain US agency collateralized mortgage obligation securities purchased by the King County Investment Pool to enhance investment yield. Although these securities are sensitive to early prepayments by mortgagees, usually resulting from a decline in interest rates, County policies are in place to ensure that only the lowest risk securities of this type are acquired.

External Investment Pool The King County Investment Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company. Oversight is provided by the King County Executive Finance Committee (EFC) pursuant to RCW 36.29.020. The EFC consists of the Chair of the County Council, the County Executive, the Chief Budget Officer, and Director of the Finance and Business Operations Division. All investments are subject to written policies and procedures adopted by the EFC. The EFC reviews pool performance monthly.

All securities are reported at fair value. Fair value reports are prepared monthly and are distributed to all Pool participants. Fair value pricing is provided by the County's security safekeeping bank. If a security is not priced by the County's safekeeping bank, prices are obtained from Bloomberg L.P., a provider of fixed income analytics, market monitors, and security pricing. In 2007, the County also obtained quotes from primary investment dealers to help determine the fair values of impaired investments. The County has not provided or obtained any legally binding guarantees to support the value of the Investment Pool's shares.

The Pool values participants' shares using an amortized cost basis. Monthly income is distributed to participants based on their relative participation during the period. Income is calculated based on: (1) realized investment gains and losses; (2) interest income based on stated rates (both paid and accrued); and (3) the amortization of discounts and premiums on a straight-line basis. Income is reduced by the contractually agreed upon investment fee. This method differs from the fair value method used to value investments in this statement because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair values. The net change in the fair values of the investments in the Pool are reflected as an increase or decrease in cash and cash equivalents in the statement of net assets. Details of the recognition of unrealized gains or losses are reported in the statements of revenues, expenditures and changes in fund balance – budget and actual.

The Primary Government, excluding the equity in the component units, has a balance of $3.16 billion in the Investment Pool. The change in the fair value of the total investments for the reporting entity as of December 31, 2007, after considering purchases, sales and maturities, resulted in a net markdown from cost of $70 million. The following schedule shows the types of investments, including deposits in savings accounts and certificates of deposit, the average interest rate, and the effective duration limits of the various components of the King County Investment Pool as of December 31, 2007 (in thousands):

NOTE 4 – CONTINUED

KING COUNTY INVESTMENT POOL

Investment Type	Fair Value	Principal	Average Interest Rate	Effective Duration (Yrs)
Savings Accounts	$ 170,315	$ 170,315	4.35%	-
Certificates of Deposit	675,000	675,000	5.09%	0.331
Repurchase Agreements	530,000	530,000	4.68%	0.029
Commercial Paper	173,429	256,788	3.26%	0.030
US Agency Discount Notes	1,237,884	1,251,925	4.32%	0.279
Taxable Municipal Notes	47,170	46,785	4.97%	1.275
Taxable Municipal Zero Coupon Notes	19,969	20,525	3.75%	0.607
US Agency Notes	911,951	898,551	5.29%	1.530
US Agency Collateralized Mortgage Obligations	84,885	85,680	4.52%	3.095
State Treasurer's Investment Pool	353,092	353,092	4.56%	0.005
Totals	$4,203,695	$ 4,288,661	4.66%	0.552

Impaired Investments As of December 31, 2007, the King County Investment Pool held four commercial paper assets that are impaired and are part of enforcement events where a trustee/receiver is appointed to determine the best options for selling assets and/or restructuring the portfolio. The four impaired investments represent $207 million or 5 percent of the Pool's total assets. The unrealized loss on these impaired investments is $83 million and the maximum risk of the loss is $207 million as of December 31, 2007. The County expects implementation to occur during the second half of 2008.

Interest rate risk – Investments Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the County manages its exposure to fair value losses arising from increasing interest rates by setting maturity and effective duration limits for the Pool. The Pool is managed as two subportfolios: the liquidity portfolio and the core portfolio. The liquidity portfolio's average maturity cannot exceed 120 days and is intended to meet the County's short-term liquidity requirements. The total balance of the liquidity portfolio must be at least 15 percent of the total Investment Pool. The core portfolio is managed similar to a short-term fixed-income fund. The average duration of the core portfolio is currently restricted to a range of one and one-quarter to three and one-quarter years. Securities in the core portfolio cannot have an average life greater than five years at purchase. Based on historical and forecasted cash flows, the Executive Finance Committee established the maximum amount that can be invested in the core portfolio. At year-end, this limit was $2.2 billion and the County was in compliance with this policy. As of December 31, 2007, the combined effective duration of the liquidity and core portfolios was 0.552 years.

Credit risk of Debt Securities Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The County's Investment Pool was rated AAAf at December 31, 2007. In January 2008, the rating of the King County Investment Pool was temporarily suspended by Standard & Poor's pending further information becoming available on the outcome of restructuring proposals associated with each impaired investment. Standard & Poor's took this action because they had not been able to receive timely information about the impaired investments due to the confidential nature of the various enforcement events and related restructuring proceedings. Upon completion of the impaired investment restructurings or removal of the impaired investments from the Pool, the County may re-apply for a Pool rating.

The credit quality distribution below is categorized to display the greatest degree of credit risk as rated by Standard and Poor's, Moody's, or Fitch. For example, a security rated "AAA" by one rating agency and "AA" by another would be listed as "AA." The following table shows the credit quality for all securities in the Pool not backed by the full faith and credit of the United States (in thousands):

NOTE 4 – CONTINUED

Credit Quality Distribution

Investment Type	AAA or A-1	AA	D	Not Rated	Total
Repurchase Agreements	$ 530,000	$ -	$ -	$ -	$ 530,000
Commercial Paper	49,902	-	123,527	-	173,429
US Agency Discount Notes	1,237,884	-	-	-	1,237,884
Taxable Municipal Notes	-	47,170	-	-	47,170
Taxable Municipal Zero Coupon Notes	19,969	-	-	-	19,969
US Agency Notes	911,951	-	-	-	911,951
US Agency Collateralized			-		
Mortgage Obligations	84,885	-	-	-	84,885
State Treasurer's Investment Pool	-	-	-	353,092	353,092
TOTAL	$ 2,834,591	$47,170	$123,527	$ 353,092	$3,358,380

The King County Investment Pool's policy limits the maximum amount that can be invested in various securities. At year-end, the Pool was in compliance with this policy. The Pool's actual composition consisted of Savings Accounts and Certificates of Deposit–20 percent, Repurchase Agreements–13 percent, Commercial Paper–4 percent, Municipal bonds–2 percent, Agency Securities–51 percent, Agency Mortgage Backed Securities–2 percent and State Treasurer's Investment Pool–8 percent. The table below summarizes the Pool's diversification policy.

OVERVIEW OF KING COUNTY'S INVESTMENT POOL'S POLICIES TO LIMIT INTEREST RATE & CREDIT RISK

Investment Type	Maximum Maturity	Security Type Limit	Single Issuer Limit	Minimum Credit Rating
US Treasury	5 Years	100%	None	N/A
US Federal Agency	5 Years	75%	75%	N/A
US Federal Agency MBS	5 Year WAL	25%	25%	N/A
Certificates of Deposit	5 Years	20%	7.5%	PDPC(1)
Municipal Securities(2)	5 Years	20%	5%	A(3)
Bank Securities	5 Years	20%	5%	A(3)
Repurchase Agreements	60 Days(4)	40%	10%	Collateral
Commercial Paper	180 Days	25%	5%	A1/P1(5)
Bankers' Acceptances	180 Days	25%	10%	Top 50(6)
State LGIP(7)	N/A	None	None	N/A

N/A = Not applicable
(1) Institution must be a Washington State depository. Treasurers can deposit up to 100% of bank's net worth.
(2) Washington state issuers: general obligations and revenue bonds. Other states: only general obligation bonds.
(3) Must be rated "A" or better by two rating agencies.
(4) 102% collateralized, over 30 days 105%.
(5) Must be rated in top credit category by at least two rating agencies. Maturities > 100 days must have "AA" long-term rating. Suspended new purchases of commercial paper in August 2007.
(6) Bankers' acceptances can only be purchased from the 50 largest banks in the world by asset size.
(7) The state investment pool (LGIP) is a money market-like fund managed by the State Treasurer's Office.

Concentration of credit risk – Investments Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year-end the Pool had concentrations greater than 5 percent of the total investment pool portfolio in the following issuers: Federal National Mortgage Association–21 percent, Federal Home Loan Bank–19 percent, Federal Home Loan Mortgage Corporation–13 percent, UBS Financial Services–7 percent, Key Bank, NA–6 percent and Credit Suisse Securities (USA) LLC–6 percent.

Custodial credit risk – Investments Custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. By County policy, all security transactions, including repurchase agreements, are settled "delivery versus payment." This

NOTE 4 – CONTINUED

means that payment is made simultaneously with the receipt of the security. These securities are delivered to the County's safekeeping bank or its tri-party bank.

Investment Pool's Condensed Statements

The King County Investment Pool's Condensed Statement of Net Assets and Changes in Net Assets as of December 31, 2007, are as follows (in thousands):

Condensed Statement of Net Assets

Assets	$	4,212,825
Net assets held in trust for pool participants	$	4,212,825
Equity of internal pool participants	$	1,785,607
Equity of external pool participants		2,427,218
Total equity	$	4,212,825

Condensed Statement of Changes in Net Assets

Net assets - January 1, 2007	$	3,606,527
Net change in investments by pool participants		606,298
Net assets - December 31, 2007	$	4,212,825

Individual Investment Accounts

King County also purchases individual investments for other legally separate entities, such as special districts and public authorities, that are not part of the financial reporting entity. Net assets in these individual investment accounts are reported in a separate Investment Trust Fund in the Fiduciary Funds section.

Component Units

Harborview Medical Center (HMC) Harborview Medical Center (HMC) participates in the County's investment pool and follows the applicable criteria as described above for the King County Investment Pool deposits and investments.

Custodial credit risk – Deposits The custodial credit risk for deposits is the risk that in the event of a bank failure, the HMC's deposits may not be recovered. HMC maintains demand deposit accounts in various banks (insured up to $100 thousand per bank) totaling $23.5 million with a carrying amount of $23.4 million. In addition, HMC has equity in the Investment Pool – Certificates of Deposit and Investments (reported as cash equivalents on June 30, 2007). HMC's equity in the pool applies the same criteria as the King County Investment Pool to classify the amounts of deposits and investments exposed to custodial credit risk as uninsured and uncollateralized. As of June 30, 2007, HMC's equity in the pool was $217.3 million and the carrying amount was $217.8 million, as shown in the following table (in thousands):

NOTE 4 – CONTINUED

Harborview Medical Center

	Carrying Amount	Bank Balance	Uninsured and Uncollateralized
Cash in other banks	$ 23,361	$ 23,480	$ 275
Equity in Investment Pool			
Certificates of Deposit	43,789	43,701	17,162
Investments	173,969	173,622	-
Total Equity in Investment Pool	217,758	217,323	17,162
Total	$ 241,119	$240,803	$ 17,437

Washington State Major League Baseball Stadium Public Facilities District (PFD)

The Washington State Major League Baseball Stadium Public Facilities District (PFD) participates in the County's investment pool and follows the applicable criteria as described above for the King County Investment Pool deposits and investments.

Custodial credit risk – Deposits The custodial credit risk for deposits is the risk that in the event of a bank failure, the PFD's deposits may not be recovered. The PFD maintains demand deposit accounts in various banks (insured up to $100 thousand per bank) totaling $80 thousand. In addition, the PFD has equity in the Investment Pool – Certificates of Deposit and Investments (reported as cash equivalents on December 31, 2007). The PFD's equity in the pool applies the same criteria as the King County Investment Pool to classify the amounts of deposits and investments exposed to custodial credit risk as uninsured and uncollateralized. As of December 31, 2007, the PFD's equity in the pool was $11.3 million and the carrying amount was $11.1 million as shown in the following table (in thousands):

	Carrying Amount	Bank Balance	Uninsured and Uncollateralized
Cash in other banks	$ 80	$ 80	$ -
Equity in Investment Pool			
Certificates of Deposit	2,228	2,279	895
Investments	8,852	9,056	-
Total Equity in Investment Pool	11,080	11,335	895
Total	$ 11,160	$ 11,415	$ 895

Cultural Development Authority of King County (CDA)

Deposits The Cultural Development Authority of King County (CDA), dba 4Culture, maintains a deposit relationship with a local commercial bank. All deposits with this qualified public depository that are not insured by the Federal Deposit Insurance Corporation (FDIC) are fully collateralized by the Public Deposit Protection Commission of the State of Washington (PDPC); accordingly, the CDA has no custodial credit risk for its deposits. Carrying amounts of deposits for book purposes are materially the same as bank balances.

Investments The CDA does not participate in the County's investment pool. The CDA has an Investment Policy to guide the management of its assets and ensure that all investment activity is within the regulations established by State and County Code. The CDA's Board of Directors

NOTE 4 – CONTINUED

monitors the investments to ensure compliance with Policy guidelines and reviews the investment performance at least annually.

State statutes authorize the CDA to invest in certificates, notes, or bonds of the United States, and other obligations of the United States or its agencies or any corporation wholly owned by the government of the United States. Statutes also authorize the CDA to invest in bankers' acceptances purchased on the secondary market, federal home loan bank notes and bonds, federal land bank bonds, federal national mortgage association notes and debentures and guaranteed certificates of participation. The CDA is also authorized to invest in the Washington State Local Government Investment Pool (LGIP), which is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission. The LGIP funds are limited to high quality obligations with limited maximum and average maturities, with the effect of minimizing both market and credit risk.

The schedule below shows the types of investments, the average interest rate, the effective duration limits and concentration of all CDA investments as of December 31, 2007 (in thousands):

Cultural Development Authority (CDA)

Investment Type	Fair Value	Principal	Average Interest Rate	Effective Duration (Yrs)	Concentration
State Treasurer's Investment Pool	$ 13,136	$ 13,136	4.56%	0.003	36%
US Treasury Notes	11,788	11,449	4.19%	3.563	32%
Federal Home Loan Mortgage Corp Debentures	2,948	2,900	5.05%	3.350	8%
Federal National Mortgage Association Notes	7,285	7,142	4.96%	5.428	20%
Federal Home Loan Bank Bonds	1,485	1,456	4.12%	2.980	4%
Totals	$ 36,642	$ 36,083	4.54%	2.617	100%

Interest rate risk – Investments Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its Investment Policy, the CDA manages its exposure to interest rate risk by setting maturity and effective duration limits for its portfolio. As of December 31, 2007, the combined weighted average effective duration of the CDA's portfolio was 2.617 years.

Credit risk of Debt Securities Credit risk is the risk that an issuer will not fulfill its obligations. As of December 31, 2007, all issuers of investments in the CDA portfolio had a Standard & Poor's rating of "AAA." The Washington State Local Government Investment Pool is not rated.

Concentration of credit risk – Investments Concentration of credit risk is the risk of loss attributed to the magnitude of the CDA's investment in a single issuer. As of December 31, 2007, the CDA had concentrations greater than 5 percent of its total portfolio in the following issuers: Federal National Mortgage Association–20 percent, and Federal Home Loan Mortgage Corporation Debentures–8 percent.

NOTE 4 – CONTINUED

Receivables

Analysis of Estimated Uncollectible Accounts Receivable

Receivables for governmental funds are reported net of estimated uncollectible amounts in the basic financial statement, Balance Sheet–Governmental Funds. The schedule below shows receivables at gross with the related estimated uncollectible accounts (in thousands):

	General Fund	Public Health Fund	Other Governmental Funds	Total Governmental Funds
Receivables				
Accounts receivable	$ 75,941	$ 2,134	$ 30,384	$ 108,459
Estimates uncollectible accounts receivable	(67,510)	(18)	(7,529)	(75,057)
Accounts receivable, net	$ 8,431	$ 2,116	$ 22,855	$ 33,402
Other receivables				
Abatements receivable	$ -	$ -	$ 279	$ 279
Estimated uncollectible abatements receivable	-	-	(65)	(65)
Assessments receivable - current	-	-	85	85
Assessments receivable - deferred	-	-	71	71
Accrued interest/penalty receivable - delinquent assessments	-	-	2	2
Other receivables, net	$ -	$ -	$ 372	$ 372
Due from other governments	$ 43,230	$ 19,690	$ 46,995	$ 109,915
Estimated uncollectible due from other governments	(264)	(1)	-	(265)
Due from other governments, net	$ 42,966	$ 19,689	$ 46,995	$ 109,650

NOTE 5 – PROPERTY TAXATION

Taxing Powers

The County is authorized to levy both "regular" property taxes and "excess" property taxes. Regular property taxes are subject to limitations as to rates and amounts and are imposed for general municipal purposes, including the payment of debt service on limited tax general obligation bonds. The County also may impose "excess" property taxes that are not subject to limitation when authorized by a 60 percent majority popular vote, as provided in Article VII, Section 2, of the State Constitution and RCW 84.52.052. To be valid, such popular vote must have a minimum voter turnout of 40 percent of the number who voted at the last County general election, except that one-year excess tax levies also are valid if the numbers of voters approving the excess levy is at least 60 percent of a number equal to 40 percent of the number who voted at the last County general election. Excess levies may be imposed without a popular vote when necessary to prevent the impairment of the obligation of contracts.

Regular property tax levies are subject to rate limitations and amount limitations, as described below, and to the uniformity requirement of Article VII, Section 1 of the State Constitution, which specifies that a taxing district must levy the same rate on similarly classified property throughout the district. Aggregate property taxes vary within the County because of its different overlapping taxing districts.

Maximum Rate Limitations. The County may levy regular property taxes for general municipal purposes and for road district purposes. Each purpose is subject to a rate limitation. The general municipal purposes levy is limited to $1.80 per thousand of assessed value; the County levied $1.08814 per thousand in 2007. The road district purposes levy, which is levied in unincorporated areas of the County for road construction and maintenance and other County services provided in the unincorporated areas, is limited to $2.25 per thousand; the County levied $1.74574 per thousand in 2007. Both the general purposes levy and the road district purposes levy are below the maximum allowable rate because of an additional limitation on the increase from one year to the next in the amount of taxes levied.

The County is authorized to increase its general purposes levy to a maximum of $2.475 per thousand of assessed value if the total combined levies for both general and road purposes do not exceed $4.05 per thousand and if no other taxing district has its levy reduced as a result of the increased County levy (RCW 84.52.043).

The $1.80 per thousand limitation on the general purposes levy is exclusive of the following regular property taxes: (1) a voted levy for emergency medical services, limited to $0.50 per thousand (authorized by RCW 84.52.069); (2) a voted levy to finance affordable housing for very low income households, limited to $0.50 per thousand (authorized by RCW 84.52.105), however, the County has not sought approval from voters for this levy; and (3) a non-voted levy for conservation futures, limited to $0.0625 per thousand (authorized by RCW 84.34.230).

In November 2001 voters approved a six-year emergency medical services property tax at a maximum rate of $0.25 per thousand beginning in the 2002 tax year. The County currently is levying $0.05135 per thousand for conservation futures. On November 8, 2005, voters approved a $0.05 Veterans and Human Services temporary lid lift for six years. The County levied $0.04672 for Veterans and Human Services in 2007. In 2006 voters in the County approved a six-year temporary lid lift to finance an automated fingerprint identification system. This six-year levy began in 2007; the current levy rate is $0.05680 per thousand.

NOTE 5 – CONTINUED

The County-wide four-year temporary lid lift for Regional and Rural Parks, approved by voters in 2003, has a current rate of $0.04244 per thousand.

One Percent Aggregate Regular Property Tax Levy Limitation. Aggregate regular property tax levies by the State and all taxing districts except port districts and public utility districts are subject to a rate limitation of one percent of the true and fair value of property (or $10.00 per thousand) by Article VII, Section 2 of the State Constitution and by RCW 84.52.050.

$5.90/$1,000 Aggregate Regular Property Tax Levy Limitation. Within the one percent limitation described above, aggregate regular property tax levies by all taxing districts except the State, port districts and public utility districts are subject to a rate limitation of $5.90 per thousand of assessed value (or 0.59 percent) by RCW 84.52.043(2). This limitation is exclusive of levies for emergency medical services, affordable housing for very low income households, and acquiring conservation futures.

If aggregate regular property tax levies exceed the one percent or $5.90 per thousand limitations, levies requested by "junior" taxing districts within the area affected are reduced or eliminated according to a detailed prioritized list (RCW 84.52.010) to bring the aggregate levy into compliance. Junior taxing districts are defined by RCW 84.52.043 as all taxing districts other than the State, counties, cities, towns, road districts, port districts, and public utility districts.

Regular Property Tax Increase Limitation. The regular property tax increase limitation (chapter 84.55 RCW), limits the total dollar amounts of regular property taxes levied by an individual taxing district to the amount of such taxes levied in the highest of the three most recent years multiplied by a limit factor, plus an adjustment to account for taxes on new construction at the previous year's rate. As a result of the passage of Initiative 747 (Chapter 1, Laws of 2002), by State voters in November 2001, the limit factor is defined as the lesser of 101 percent or 100 percent plus inflation, but if the inflation rate is less than one percent, the limit factor can be increased to 101 percent, if approved by a majority plus one vote of the governing body of the taxing district, upon a finding of substantial need. In addition, the limit factor may be increased, regardless of inflation, if such increase is authorized by the governing body of the taxing district upon a finding of substantial need and is also approved by the voters at a general or special election within the taxing district. Such election must be held less than 12 months before the date on which the proposed levy will be made, and any tax increase cannot be greater than described under "Maximum Rate Limitations." The approval of a majority of the voters would be required for the limit factor to be increased. The new limit factor will be effective for taxes collected in the following year only.

On November 8, 2007, the Washington Supreme Court ruled Initiative 747 unconstitutional in *Washington Citizens Action of Washington v. State*. That decision became effective November 28, 2007. On November 29, 2007, the State Legislature acted to reimpose the limit set forth in Initiative 747. As a consequence, regular property taxes will be subject to the limitations described above.

RCW 84.55.092 allows the property tax levy to be set at the amount that would be allowed if the tax levy for taxes due in each year since 1986 had been set at the full amount allowed under chapter 84.55 RCW. This is sometimes referred to as "banked" levy capacity.

With a majority vote of its electors, a taxing district may levy for the following year, within the statutory rate limitations described above, more than what otherwise would be allowed by the tax increase limitations, as allowed by RCW 84.55.050. This is known as a "levy lid lift," which has

NOTE 5 – CONTINUED

the effect of increasing the jurisdiction's levy "base" when calculating permitted levy increases in subsequent years. The new base can apply for a limited or unlimited period, except that if the levy lid lift was approved for the purpose of paying debt service on bonds, the new base can apply for no more than nine years. After the expiration of any limited purpose or limited duration specified in the levy lid lift, the levy is calculated as if the taxing district had levied only up to the limit factor in the interim period.

Since the regular property tax increase limitation applies to the total dollar amount levied, rather than to levy rates, increases in the assessed value of all property in the taxing district (excluding new construction) which exceed the growth in taxes allowed by the limit factor result in decreased regular tax levy rates, unless voters authorize a higher levy.

Component Units with Taxing Authority. In 2007, the Metropolitan King County Council created a County-wide flood control zone district and a County-wide ferry district. The boundaries of each district are coterminous with the boundaries of the County and the members of the County Council serve (at least initially) as the legislative body for each district, but under State law each district is a separate taxing district with independent taxing authority. Tax levies for each district will begin to be collected during 2008.

Property Tax Calendar

January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

Tax Collection Procedures

Property taxes are levied in specific amounts by the County Council and the rate for all taxes levied for all taxing districts in the County is determined, calculated and fixed by the County Assessor (the "Assessor") based upon the assessed valuation of the property within the various taxing districts. The Assessor extends the tax levied within each taxing district upon a tax roll that contains the total amounts of taxes levied and to be collected and assigns a tax account number to each tax lot. The tax roll is delivered to the Treasury Operations Section Manager who is responsible for the billing and collection of taxes due for each account. All taxes are due and payable on April 30 of each tax year, but if the amount due from a taxpayer exceeds fifty dollars, one-half may be paid then and the balance no later than October 31 of that year (except that the half to be paid on April 30 may be paid at any time prior to October 31 if accompanied by penalties and interest accrued until the date of payment).

The methods for giving notice of payment of taxes due, collecting such taxes, accounting for the taxes collected, dividing the collected taxes among the various taxing districts, and giving notice of delinquency are covered by detailed State statutes. Personal property taxes levied by the County Council are secured by a lien on the personal property assessed. A federal tax lien filed before the County Council levies the personal property taxes is senior to the County's

NOTE 5 – CONTINUED

personal property tax lien. In all other respects, and subject to the possible "homestead exemption" described below, the lien on property taxes is senior to all other liens or encumbrances of any kind on real or personal property subject to taxation. By law, the County may commence foreclosure on a tax lien on real property after three years have passed since the first delinquency. The State's courts have not decided if the homestead law (chapter 6.13 RCW) gives the occupying homeowner a right to retain the first $125 thousand in proceeds of the forced sale of a family residency or other "homestead" property for delinquent general property taxes. The United States Bankruptcy Court for the Western District of Washington has held that the homestead exemption applies to the lien for property taxes, while the State Attorney General has taken the position that it does not.

Assessed Valuation Determination

The Assessor determines the value of all real and personal property throughout the County that is subject to *ad valorem* taxation, with the exception of certain public service properties for which values are determined by the State Department of Revenue. The Assessor is an elected official whose duties and methods of determining value are prescribed and controlled by statute and by detailed regulations promulgated by the State Department of Revenue.

For tax purposes, the assessed value of property is 100 percent of its true and fair value. Since 1996, all property in the County has been subject to on-site appraisal and revaluation every six years, and is revalued each year based on annual market adjustments. Personal property is valued each year based on affidavits filed by the property owner. The property is listed by the Assessor on a roll at its current assessed value and the roll is filed in the Assessor's office. The Assessor's determinations are subject to revision by the County Board of Appeals and Equalization and, if appealed, subject to further revision by the State Board of Tax Appeals. At the end of the assessment year, in order to levy taxes payable the following year, the County Council receives the Assessor's final certificate of assessed value of property within the County.

Accounting for Property Taxes Receivable

In the governmental funds, property taxes levied for the current year are recorded on the balance sheet as taxes receivable and deferred revenue at the beginning of the year. Property taxes are recognized as revenue when collected in cash at which time the accounts Taxes receivable and Deferred revenues on the balance sheet are reduced by the amount of the collection. The amount of taxes receivable at year-end that would be collected soon enough to be used to pay liabilities of the current period is not material. At year-end, all uncollected property taxes are reported on the balance sheet as Taxes receivable-delinquent and Deferred revenues. For the government-wide financial statements, the deferred revenue related to the current period, net of the allowance for uncollectible property taxes, is reclassified to revenue.

Allocation of Tax Levies

The following table compares the allocation of the 2007 and 2006 countywide, Emergency Medical Services (EMS), and unincorporated County tax levies by fund, showing for each year the original tax levy and levy rate. The original tax levy reflects the levy before any supplemental levies, tax cancellations, or other adjustments. The 2007 countywide assessed valuation was $298,755,199 thousand, an increase of $28.2 billion from 2006; the assessed valuation for the unincorporated area levy was $45,407,873 thousand, an increase of $3.9 billion from 2006.

NOTE 5 – CONTINUED

ALLOCATION OF 2007 AND 2006 TAX LEVIES

	2007 Original Taxes Levied (in thousands)	2007 Levy Rate (per thousand)	2006 Original Taxes Levied (in thousands)	2006 Levy Rate (per thousand)
Countywide Levy Assessed Valuation:				
$298,755,199 thousand[a]				
Items Within Operating Levy[b]				
General Fund	$ 251,367	$ 0.84558	$ 241,142	$ 0.89604
River Improvements	2,741	0.00922	2,654	0.00986
Veterans' Relief	2,319	0.00780	2,244	0.00834
Human Services	5,151	0.01733	4,990	0.01854
Intercounty River Improvement	50	0.00017	51	0.00019
Limited G.O. Bonds Debt Service	18,454	0.06208	19,041	0.07076
Automated Fingerprint Identification System[c]	16,881	0.05680	6	-
Park Levy[d]	12,616	0.04244	12,222	0.04542
Veterans and Human Services[e]	13,884	0.04672	13,450	0.05000
Total Operating Levy	323,463	1.08814	295,800	1.09915
Conservation Futures Levy[f]				
Conservation Futures Levy	10,850	0.03650	4,430	0.01646
Farmland and Park Debt Service	4,415	0.01485	10,338	0.03842
Total Conservation Futures Levy	15,265	0.05135	14,768	0.05488
Unlimited Tax G.O. Bonds				
(Voter-approved Excess Levy)	44,311	0.15007	46,671	0.17466
Total Countywide Levy	383,039	1.28956	357,239	1.32869
EMS Levy Assessed Valuation:				
$192,546,712 thousand [a] [g]	39,526	0.20621	38,251	0.21982
Unincorporated County Levy Assessed Valuation:				
$45,407,873 thousand [a] [h]				
County Road Fund	77,733	$ 1.74574	76,062	$ 1.84203
Total County Tax Levies [i]	$ 500,298		$ 471,552	

(a) Assessed valuation for taxes payable in 2007.
(b) The operating levy tax rate is statutorily limited to $1.80 per thousand of assessed valuation.
(c) The Automated Fingerprint Identification System (AFIS) levy is a regular property tax to be assessed for six years beginning in 2007 at a levy rate of not more than $0.05680 per thousand of assessed valuatian as authorized by RCW 84.55.050 and a proposition approved by a majority of the voters of King County.
(d) The Park Levy is a regular property tax to be assessed for four years beginning in 2004 at a levy rate of not more than $0.049 per thousand of assessed valuation as authorized by RCW 84.55.050 and a proposition approved by a majority of the voters of King County.
(e) The Veterans and Human Services levy is a regular property tax to be assessed for six years beginning in 2006 at a levy rate of not more than $0.05 per thousand of assessed valuation as authorized by RCW 84.55.050 and a proposition approved by a majority of voters in the County.
(f) The Conservation Futures levy tax rate is statutorily limited to $.0625 per thousand of assessed valuation.
(g) The Emergency Medical Services (EMS) levy shown excludes that portion of the levy within the City of Seattle. The levy was approved by the voters of King County for a six-year period with collection beginning in 2002. A proposition to replace the expiring levy with new six-year levy with collections beginning in 2008 was approved by a majority of voters in the County in 2007.
(h) The tax rate is statutorily limited to a maximum of $2.25 per thousand of assessed valuation.
(i) Excludes tax levy of the blended component unit Flood Control Zone Districts. In 2007 and 2006, the original taxes levied were $956 and $923 thousand, respectively.

NOTE 6 – CAPITAL ASSETS

Primary Government

The following is a summary of changes in capital assets for the King County Primary Government (in thousands):

	Balance 01/01/07	Beginning Balance Adjustments	Increases	Decreases	Balance 12/31/07
Governmental Activities:					
Capital assets not being depreciated					
Land	$ 731,318	$ (14,622)	$ 32,978	$ (13,790)	$ 735,884
Infrastructure	953,185	(86,319)	63,026	(2,024)	927,868
Work in progress	77,245	57,371	107,999	(127,022)	115,593
Total capital assets not being depreciated	1,761,748	(43,570)	204,003	(142,836)	1,779,345
Capital assets being depreciated					
Buildings	653,533	(21,447)	122,998	(69)	755,015
Improvements other than buildings	21,582	-	75	(666)	20,991
Equipment	213,079	-	38,970	(26,983)	225,066
Total capital assets being depreciated	888,194	(21,447)	162,043	(27,718)	1,001,072
Less accumulated depreciation for:					
Buildings	(201,210)	6,119	(19,064)	18	(214,137)
Improvements other than buildings	(3,909)	-	(1,256)	662	(4,503)
Equipment	(137,259)	-	(25,145)	17,064	(145,340)
Total capital assets being depreciated - net	545,816	(15,328)	116,578	(9,974)	637,092
Governmental activities capital assets - net	$ 2,307,564	$ (58,898)	$ 320,581	$ (152,810)	$ 2,416,437
Business-type Activities:					
Capital assets not being depreciated					
Land	$ 324,756	$ -	$ 9,130	$ (1,902)	$ 331,984
Work in progress	956,121	-	514,928	(100,772)	1,370,277
Total capital assets not being depreciated	1,280,877	-	524,058	(102,674)	1,702,261
Capital assets being depreciated					
Buildings	1,062,988	-	28,716	(18,095)	1,073,609
Improvements other than buildings	2,052,474	-	23,927	(9,247)	2,067,154
Equipment	1,416,916	-	40,669	(38,621)	1,418,964
Total capital assets being depreciated	4,532,378	-	93,312	(65,963)	4,559,727
Less accumulated depreciation for:					
Buildings	(371,226)	-	(35,745)	13,270	(393,701)
Improvements other than buildings	(755,796)	-	(51,577)	416	(806,957)
Equipment	(880,388)	-	(81,991)	24,321	(938,058)
Total capital assets being depreciated - net	2,524,968	-	(76,001)	(27,956)	2,421,011
Business-type activities capital assets - net	$ 3,805,845	$ -	$ 448,057	$ (130,630)	$ 4,123,272

Beginning balance adjustments to infrastructure and land (right-of-way) were due to reclassifications of previously capitalized costs as preservation and other corrections. Beginning balance adjustments to buildings and accumulated depreciation were due to cost basis differences that resulted from the change in accounting for certain governmental buildings previously accounted for as capital leases. The cost of the buildings is now based on the actual construction cost (net of depreciation) as reported in the lessor corporations' balance sheets after the corporations were blended with the County primary government. The adjustment for work-in-progress was another effect of the blending. (See Note 15 – Restrictions, Reserves, Designations, and Changes in Equity – Restatements of Beginning Balances).

NOTE 6 – CONTINUED

Governmental activities include capital assets of governmental internal service funds. All but one of the County's internal service funds is classified under governmental activities; the Wastewater Equipment Rental Fund is reported under business-type activities because it provides services exclusively to the Water Quality enterprise.

Depreciation Expense

Depreciation expense was charged to functions of the Primary Government as follows (in thousands):

Governmental Activities	
General government services	$ 9,732
Law, safety and justice	12,089
Physical environment	200
Transportation	629
Economic environment	284
Mental and physical health	1,787
Culture and recreation	2,548
Capital assets held by the County's governmental internal service funds are charged to governmental activities based on their usage of the assets	10,838
Total depreciation expense – governmental activities	$ 38,107
Business-type Activities	
Water Quality	$ 74,781
Public Transportation	82,113
Solid Waste	13,566
King County International Airport	1,521
Radio Communications	1,138
Institutional Network	1,649
Capital assets held by the Wastewater Equipment Rental internal service fund are charged to business-type activities based on their usage of the assets	834
Total depreciation expense – business-type activities	$ 175,602

Infrastructure

Infrastructure capital assets are long-lived capital assets that are normally stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Included in King County's infrastructure are the roads and bridges network maintained by the Roads Division of the Department of Transportation. The roads and bridges network infrastructure is reported using the modified approach, i.e., depreciation is not recorded. An important consequence of opting for the modified approach is that costs incurred to extend the asset's useful life which are normally capitalized under the depreciation method are now expensed as preservation costs.

Roads and Bridges Infrastructure Valuation

The roads and bridges infrastructure network acquired or constructed prior to 2002 is valued at estimated historical cost. Base year estimates of 2001 replacement costs for all existing roads and 1988 replacement costs for all bridges were obtained using standard costing methods with the resultant values being deflated to the acquisition year (or estimated acquisition year, where

NOTE 6 – CONTINUED

the actual year was unknown), using the Engineering News Record Construction Cost Index. Retroactive reporting of traffic control elements is based on replacement cost.

Land

Land also includes right-of-way (including infrastructure-related), conservation easements, and farmland development rights.

Right-of-Way
Estimated original historical costs for infrastructure-related right-of-ways were obtained by estimating replacement costs at 2001 using land assessed valuation data and then deflating the resultant values to the acquisition year (or estimated acquisition year, where the actual year is unknown), using assessed land value indices from the King County Assessor's Office.

Conservation Easements
A conservation easement is a legal agreement between a landowner and the County that permanently limits land uses in order to protect conservation values.

Farmland Development Rights
The Farmland Preservation Program was established in 1979 to preserve, protect, and enhance agricultural lands and open spaces. Under this program the County has acquired farmland development rights for approximately 12,800 acres. Acquisition of these development rights was intended to ensure that land is not developed in a nonagricultural use.

Governmental Buildings in Internal Service Fund

Certain capital assets classified under governmental activities are reported under a building development and management internal service fund which consists of the aggregation of four separate non-profit property management corporations that are recognized as blended component units of the County in accordance with GASB Statement 14. These buildings are: King Street Center building; Patricia Bracelin Steel Memorial building; Chinook building and Goat Hill parking garage; and the Ninth and Jefferson Building (under construction).

Construction Commitments

Project commitment is defined as authorized and planned expenditures for the next fiscal year.

Proprietary Funds
Public Transportation Enterprise – $794.5 million is committed to maintenance of existing infrastructure, replacement of aging fleet, and expansion of transit base capacity.

Water Quality Enterprise – $1.4 billion is committed to constructing a new major wastewater treatment plant and ensuring the continued operation, reliability, and compliance with regulatory standards of existing wastewater treatment facilities.

Other Enterprises – $125.8 million is committed to improving the County's solid waste regional landfill and transfer stations; $35.5 million is committed to runway rehabilitation and facilities improvements at the King County International Airport.

Capital Projects Funds

$454.9 million is committed to various capital projects, including: 1) strategic property acquisitions oriented towards conservation of natural resources, protection of habitat, and

NOTE 6 – CONTINUED

control of urban sprawl; 2) development and improvement of trails, playgrounds and ballfields, and other cultural facilities; 3) affordable housing; 4) technology initiatives to improve business efficiency, emergency preparedness, and network security; 5) flood control to protect the ecosystem and public property; 6) preservation and widening of roads and bridges; and 7) improvement of building facilities.

Discretely Presented Component Units

Harborview Medical Center (HMC)

Capital assets activity for HMC during the fiscal year ended June 30, 2007, was as follows (in thousands):

	Balance 07/01/06	Increases	Decreases	Balance 06/30/07
Capital assets not being depreciated:				
Land	$ 1,586	$ -	$ -	$ 1,586
Work in progress	91,623	79,219	(7,446)	163,396
Total capital assets not being depreciated	93,209	79,219	(7,446)	164,982
Capital assets being depreciated:				
Buildings	186,504	2,547	-	189,051
Improvements other than buildings	1,531	107	(12)	1,626
Equipment	279,290	13,210	(12,496)	280,004
Total capital assets being depreciated	467,325	15,864	(12,508)	470,681
Less accumulated depreciation for:				
Buildings	(83,141)	(5,846)	-	(88,987)
Improvements other than buildings	(853)	(89)	12	(930)
Equipment	(178,924)	(18,549)	11,874	(185,599)
Total capital assets being depreciated - net	204,407	(8,620)	(622)	195,165
HMC capital assets, net	$ 297,616	$ 70,599	$ (8,068)	$ 360,147

HMC also owns other properties (net book value of $2.7 million) which are held for future use. These are reported under "Other assets" in the component unit's statement of net assets.

NOTE 6 – CONTINUED

Washington State Major League Baseball Stadium Public Facilities District (PFD)

Capital assets activity for the PFD for the period ended December 31, 2007, was as follows (in thousands):

	Balance 01/01/07	Increases	Decreases	Balance 12/31/07
Capital assets not being depreciated:				
Land	$ 38,498	$ -	$ -	$ 38,498
Capital assets being depreciated:				
Baseball stadium	489,464	394	-	489,858
Improvements other than buildings	20,666	3,154	-	23,820
Equipment	65	-	-	65
Total capital assets being depreciated	510,195	3,548	-	513,743
Less accumulated depreciation for:				
Baseball stadium	(92,797)	(12,763)	-	(105,560)
Improvements other than buildings	(516)	(79)	-	(595)
Equipment	(60)	(4)	-	(64)
Total capital assets being depreciated - net	416,822	(9,298)	-	407,524
PFD capital assets, net	$ 455,320	$ (9,298)	$ -	$ 446,022

NOTE 7 – RESTRICTED ASSETS

Within the current and noncurrent assets sections of the Statement of Net Assets are amounts that are restricted as to their use. The restricted assets for these funds are comprised of the following (in thousands):

Proprietary Funds

Public Transportation – restricted for future construction projects and debt service.	$ 324,437
Water Quality – restricted for future construction projects, debt service, and reserves and obligations.	215,308
King County International Airport – restricted for future construction projects and expansion, and obligations.	11,904
Radio Communications – restricted for future construction projects.	3,247
Solid Waste – restricted for landfill closure and post-closure care costs.	67,380
Building Development & Management Corporations – restricted for future construction projects and debt service.	173,966
Total Proprietary restricted assets	$ 796,242

Component Unit – Harborview Medical Center (HMC)

HMC Construction Fund – restricted for construction, seismic, public safety and other improvements, and furnishings of HMC buildings.	$ 60,702
HMC Special Purpose Fund – consists of restricted donations, gifts, and bequests from various sources for specific uses.	7,842
HMC Operating Fund – consists of resources that are board-designated for specific purposes, including planned capital and service components, the self-insurance fund, commuter services, net fixed assets held for future use, and others.	52,882
HMC Plant Fund – consists of resources that are board-designated for building improvements, furnishings, and repair and replacement.	33,032
Total HMC restricted assets	$ 154,458

Component Unit – Cultural Development Authority of King County (CDA)

Public Arts Projects Fund – restricted for the one percent for public art programs operated for the benefit of King County.	$ 5,808
Cultural Grant Awards Fund – restricted for arts and heritage cultural programs.	14,235
Cultural Endowment Fund – a long-term endowment for the benefit of the arts and heritage cultural programs.	19,105
Total CDA restricted assets	$ 39,148

NOTE 8 – PENSION PLANS

Substantially all full-time and qualifying part-time County employees participate in either the Public Employees' Retirement System (PERS), the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF), the Public Safety Employees' Retirement System (PSERS), or the Seattle City Employees' Retirement System (SCERS). PERS, LEOFF, and PSERS are statewide local government retirement systems administered by the State of Washington's Department of Retirement Systems under cost-sharing, multiple-employer defined benefit and defined contribution retirement plans.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380.

Historical trend and other information regarding SCERS is presented in the Seattle City Employees' Retirement System annual financial report. A copy of this report may be obtained at: Seattle City Employees' Retirement System, 801 Third Avenue, Suite 300, Seattle, WA 98104.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Descriptions

PERS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Membership in the system includes elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees (not in national higher education retirement programs); judges of district and municipal courts; and employees of local governments. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees, have the option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. The PERS defined benefit retirement payments are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching the age of 66 a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

NOTE 8 – CONTINUED

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or at age 55 with 10 years of service. Retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

Judicial Benefit Multiplier

Beginning January 1, 2007 through December 31, 2007, judicial members of PERS may choose to participate in the Judicial Benefit Multiplier Program (JBM). Current justices or judges in PERS Plan 1 or 2 may make a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of average financial compensation. Judges in PERS Plan 3 can elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of average compensation.

Members who choose to participate in the JBM will accrue service credit at the higher multiplier beginning with the date of their election, pay higher contributions, stop contributing to the Judicial Retirement Account (JRA), and be given the option to increase the multiplier on past judicial service. Members who do not choose to participate will continue to accrue service credit at the regular multiplier, continue to participate in the JRA, if applicable, never be a participant in the JBM Program, and continue to pay contributions at the regular PERS rate.

Justices and judges who are newly elected or appointed to judicial service and choose to become PERS members on or after January 1, 2007, or who have not previously opted into PERS membership, are required to participate in the JBM Program.

Justices and judges who are newly elected or appointed to judicial service will: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial

NOTE 8 – CONTINUED

service; not contribute to the JRA; and not have the option to increase the multiplier for past judicial service.

Statewide there are 1,188 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans on September 30, 2006:

Retirees and Beneficiaries Receiving Benefits	70,201
Terminated Plan Members Entitled to, But Not Yet Receiving Benefits	25,610
Active Plan Members Vested	105,215
Active Plan Members Nonvested	49,812
Total	250,838

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent and do not vary from year to year. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. The PERS Plan 3 defined contribution is a noncontributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2007, were as follows:

Members not participating in the JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	6.13%	6.13%	6.13%**
Employee	6.00%	4.15%	- ***

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** Plan 3 defined benefit portion only.
*** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members participating in the JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-Local Govt.*	6.13%	6.13%	6.13%**
Employee-Local Govt.	12.26%	10.38%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** Plan 3 defined benefit portion only.
*** Minimum rate.

NOTE 8 – CONTINUED

Both the County and the employees made the required contributions. The County's required contributions for the years ended December 31 were (in thousands):

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2005	$ 1,182	$ 10,310	$ 1,348
2006	1,918	18,562	2,460
2007	3,194	36,100	5,070

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

Plan Descriptions

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. Membership in the system includes all full-time, fully compensated, local law enforcement officers and firefighters. LEOFF membership is comprised primarily of non-state employees, with the Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003 being an exception. In addition, effective July 24, 2005, current members of PERS who are emergency medical technicians can elect to become members of LEOFF Plan 2. Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan. LEOFF defined benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays the remainder through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary is as follows:

Term of Service	Percent of Final Average
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of final average salary. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the final average salary per year of service. The final average salary is based on the 60 consecutive highest-paid service credit months. Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53. There is no cap on years of service credit and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

NOTE 8 – CONTINUED

Statewide there are 383 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans on September 30, 2006:

Retirees and Beneficiaries Receiving Benefits	8,951
Terminated Plan Members Entitled to, But Not Yet Receiving, Benefits	602
Active Plan Members Vested	12,711
Active Plan Members Nonvested	3,603
Total	25,867

Funding Policy

Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the Department of Retirement Systems in accordance with chapter 41.45 RCW. All employers are required to contribute at the level required by state law. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 1 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2007, were as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.35%
Employee	- %	8.64%

* The employer rates include the employer administrative expense fee currently set at 0.16%.

Both the County and the employees made the required contributions. The County's required contributions for the years ended December 31 were (in thousands):

	LEOFF Plan 1	LEOFF Plan 2
2005	$ 3	$ 1,815
2006	3	2,758
2007	2	3,225

Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description

PSERS was created by the 2004 legislature and became effective July 1, 2006. PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2. PSERS Plan 2 membership includes full-time employees of a covered employer on or before July 1, 2006, who met at least one of the PSERS eligibility criteria, and elected membership during the election period of July 1, 2006 to September 30, 2006; and those full-time employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

NOTE 8 – CONTINUED

A covered employer is one that participates in PSERS. Covered employers include:

- State of Washington agencies: Department of Corrections; Parks and Recreation Commission; Gambling Commission; Washington State Patrol; and Liquor Control Board.
- Washington state counties.
- Washington state cities, except for Seattle, Tacoma and Spokane.

To be eligible for PSERS, an employee must work on a full-time basis and:

- have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington, and carry a firearm as part of the job; or
- have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or
- have primary responsibility to supervise eligible members who meet the above criteria.

PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PSERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service and attains the age of 65. PSERS Plan 2 members may retire at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is the monthly average of the member's 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 retirees who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

There are 69 participating employers in PSERS. Membership in PSERS consisted of 2,073 Active Plan Members Nonvested as of the latest actuarial valuation date for the plan on September 30, 2006.

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates, which are developed by the Office of the State Actuary to fully fund Plan 2. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.37 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2007, were as follows:

NOTE 8 – CONTINUED

	PSERS Plan 2
Employer*	8.55%
Employee	6.57%

* The employer rate includes an employer administrative expense fee of 0.16%.

Both the County and the employees made the required contributions. The County's required contributions for the year ended December 31 were as follows (in thousands):

	PSERS Plan 2
2006	$ 334
2007	1,473

Seattle City Employees' Retirement System (SCERS)

SCERS is a cost-sharing, multiple-employer retirement plan administered in accordance with chapter 4.36 of the Seattle Municipal Code. County employees of the Department of Public Health who have established membership in SCERS remain covered by the City Retirement System. Employees of Public Transportation who are former employees of Seattle Transit are also covered by the system. SCERS provides retirement, death, and disability benefits.

Employees covered by this plan may retire after 30 years of service regardless of age; after age 52 with 20 years or more of service; after age 57 with ten or more years of service; and after age 62 with five or more years of service. Disability retirement is available after ten years of service. The unmodified monthly retirement allowance is based on a percentage of average salary for every year of service to a maximum of 60 percent. The average salary for this plan is defined as the highest consecutive twenty-four months' average rate of pay. The percentage for each year of service used to compute the retirement benefit depends on the age at retirement and the years of service. It ranges from 1.2 percent at age 52 with 20 years of service to a maximum of 2 percent for each year of service. The maximum allowance a member can receive is the unmodified plan, which has no provision for a beneficiary and, at the member's death, stops all payments. Several optional retirement benefit formulas exist which provide for beneficiaries with reduced monthly allowances.

The SCERS member contribution rate is 8.03 percent of compensation except for members qualifying for lower rates prior to June 1972. The County is required to contribute at an actuarially determined rate. The current rate is 8.03 percent of annual covered payroll. The contribution requirements of plan members and the County are established and may be amended by the Board of Administration. Both the County and the employees made the required contributions. The County's required contributions for the years 2005, 2006, and 2007 ending December 31 were $704, $700, and $666 thousand, respectively.

Component Unit – Harborview Medical Center (HMC)

HMC personnel are University of Washington (UW) employees. HMC faculty and professional staff participate in the University of Washington Retirement Plan (UWRP), an IRC Section 403 (b) defined contribution retirement plan authorized by the Board of Regents. HMC staff participate in a plan authorized by the State of Washington Department of Retirement Systems (DRS). Plan

NOTE 8 – CONTINUED

participation is defined by position, with the majority of HMC employees enrolled in one of the three Public Employees' Retirement Systems (PERS) plans.

All plans include contributions by both employee and employer. Employee contributions are tax-deferred. Employer contributions are paid semimonthly by the UW in accordance with rates specified by the retirement systems.

Component Unit – Washington State Major League Baseball (WSMLB) Stadium Public Facilities District (PFD)

Employees of the District have the option of participating in either the Public Employees' Retirement System (PERS) or the Stadium PFD Retirement Plan. Employer contributions are paid by the District in accordance with rates specified by the individual plans. Total payroll covered by all systems for the year ended December 31, 2007, was $33 thousand.

Employees are also able to select the Stadium PFD Retirement Plan as an alternative benefit plan to PERS. The Plan is designated as a profit-sharing plan in accordance with Section 401 (a) (27) (B) of the Internal Revenue Code. No contributions by participants are required or permitted other than authorized rollover contributions. All contributions to the plan vest immediately. Actual contributions made to the plan in 2007 were $3 thousand.

Component Unit – Cultural Development Authority of King County (CDA)

All CDA personnel participate in the Public Employees' Retirement System (PERS). PERS is a statewide local government retirement system administered by the State of Washington Department of Retirement Systems under cost-sharing, multiple-employer defined benefit public employee retirement systems.

NOTE 9 – POSTEMPLOYMENT HEALTHCARE PLAN

During the year ended December 31, 2007, the County elected to adopt the provisions of GASB Statement 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*" (GASB 45), which requires other postemployment benefits (OPEB) expenses to be accrued based on a computed *Annual Required Contribution* (ARC) which includes the current period's service cost and an amount to amortize unfunded actuarial accrued liabilities. Instead of recording expense on a "pay-as-you-go" basis, the County, under GASB 45, has recorded a liability of $6.65 million for the difference between the actuarially calculated ARC and the estimated contributions made since the adoption of GASB 45. This liability is included in other noncurrent liabilities in the accompanying December 31, 2007 statement of net assets.

The effect of GASB 45 for the current fiscal year was to reduce the County's excess of revenue over expenses before capital contributions as well as the County's net assets for the year ended December 31, 2007 by approximately $6.65 million.

Plan Description The King County Health Plan (the Health Plan) is a single-employer defined-benefit healthcare plan administered by the County. The Health Plan provides medical, prescription drug, vision, and other unreimbursed medical benefits to eligible retirees. The Health Plan's actuary is Healthcare Actuaries. The Health Plan does not issue a separate stand-alone financial report.

Funding Policy The LEOFF 1 medical benefit requirements are established by RCW 41.26.150(1) with local disability boards administering the LEOFF 1 medical service expenses. LEOFF 1 retirees are not required to contribute to the Health Plan. All other retirees are required to pay the COBRA rate associated with the elected plan as set by the Human Resources Director.

For the year ended December 31, 2007, the County contributed an estimated $5.147 million to the Health Plan. The County's contribution was to fund "pay-as-you-go" costs under the Health Plan and not to pre-fund benefits.

Annual OPEB Cost and Net OPEB Obligation The basis for the County's annual OPEB cost (expense) is the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, will cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following displays the components of the County's annual OPEB cost, the estimated amount contributed to the Health Plan, and changes in the County's net OPEB obligation to the Health Plan for the year ended December 31, 2007 (in thousands):

Normal cost — Unit Credit Method	$ 3,806
Amortization of unfunded actuarial accrued liability (UAAL)	-
Amortization of unfunded actuarial accrued liability (UAAL) at transition	7,989
Annual Required Contribution (ARC)	11,795
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	11,795
Contributions made	(5,147)
Increase in net OPEB obligation	6,648
Net OPEB obligation — beginning of year	-
Net OPEB obligation — end of year	$ 6,648

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the Health Plan, and the net OPEB obligation follows (in thousands):

NOTE 9 - CONTINUED

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2007	$11,795	43.6%	$6,648

Funded Status and Funding Progress The funded status of the Health Plan as of December 31, 2007 (in thousands),

Actuarial accrued liability (AAL) — Unit Credit	$141,893
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$141,893
Funded ratio (actuarial value of plan assets ÷ AAL)	0.0%
Covered payroll	$854,800
UAAL as a percentage of covered payroll	16.6%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. GASB 45 requires that the schedule of funding progress, presented as required additional information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of Health Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions The basis of projection of benefits for financial reporting purposes is the substantive plan (the Health Plan as understood by the County and members of the Health Plan). It includes the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the County and members of the Health Plan to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The December 31, 2007 valuation used the unit credit actuarial cost method. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses) and an initial annual healthcare cost trend rate of 11.0 percent for KingCare medical, 8.5 percent for KingCare Rx, and 11.0 percent for HMO medical/Rx, each reduced by decrements to an ultimate rate of 5.0 percent after 12 years. The vision trend rate is 1.0 percent, the miscellaneous trend rate is 7.0 percent, and the Medicare Premium trend rate is 8.5 percent, for all years. All trend rates include a 3.0 percent inflation assumption, with the exception of vision trends. The amortization of the UAAL at transition uses a level dollar amount on a closed basis. The remaining amortization period at December 31, 2007 was 29.0 years. The UAAL is recalculated each year and amortized as a level dollar amount on an open basis over 30 years.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for the Plan

(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) — Unit Credit (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a ÷ b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a) ÷ c)
12/31/2007	$ -	$ 141,893	$ 141,893	0.0%	$ 854,800	16.6%

NOTE 10 – RISK MANAGEMENT

As a municipal organization, the County has a wide range of loss exposures.

The County uses three internal service funds to account for and finance property/casualty, workers' compensation, and employee medical and dental benefits self-insurance programs. Unemployment liability is accounted for in the funds with loss experience and as governmental long-term liability. The County contracts with a plan administrator to process medical and dental claims. County fund/claims managers, together with the Civil Division of the King County Prosecuting Attorney's Office, are responsible for processing all tort and workers' compensation claims.

Claims settlements and loss expenses are accrued in the three internal service funds for the estimated settlement value of both reported and unreported claims. These funds are responsible for collecting interfund premiums from insured funds and departments for paying claim settlements and for purchasing certain policies. Interfund premiums are assessed on the basis of claims experience and are reported as revenues and expenses or expenditures.

Insurance Fund

The Insurance Fund, an internal service fund, accounts for the County's property/casualty program. The Fund, established in 1977, accounts for the County's exposures to loss due to the tortious conduct of the County, including those commonly covered by general liability, automobile liability, police professional, public officials, errors and omissions, and professional malpractice insurance policies. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund as of December 31, 2007, is $58.19 million.

The County purchases excess liability coverage that currently provides $97.5 million in limits above a $2.5 million per occurrence self-insured retention (SIR) for its general liability, automobile liability, police liability, public officials, errors and omissions, and Health Department professional malpractice exposures. The reinsurance policy has a "corridor" deductible that requires the County to pay an additional $1 million above the $2.5 million SIR before the reinsurance company becomes responsible for losses. This $1 million may either be satisfied by one large loss exceeding $3.5 million or through a combination of losses above the $2.5 million SIR. Effective September 1, 2007, the County renewed the property insurance policy. This policy has a blanket limit of $1 billion above a $100 thousand per occurrence deductible and provides an overall earthquake sublimit of $150 million. The 2007 policy was endorsed to cover Certified and Non-Certified Acts of Terrorism on a blanket basis up to $250 million.

In addition to its excess liability policy and property insurance policies, the County has specific liability insurance policies to cover some of its other exposures. The County has a liability policy for the King County International Airport with policy limits of $300 million; a liability policy to cover the police helicopter activities with liability limits of $50 million per occurrence; and excess statutory coverage for the Workers' Compensation program over a $2.5 million per occurrence SIR.

NOTE 10 – CONTINUED

In the past three years, two occurrences have resulted in payments in excess of the self-insured retention of $2.5 million. During 2007 there were no significant changes made in the County's insurance program.

The County has extensively reviewed and revised its marine policies to better address some new and expanding County exposures due mainly to the Homeland Security Act. The marine program now has limits of $50 million with additional coverage for sudden and accidental pollution, maritime employers' liability, towers liability, and contingent charterers liability.

With the assistance of an actuary, the Insurance Fund's claims liability is estimated based upon historical claims experience and other actuarial techniques. Nonincremental claim adjustment expenses are not included as part of the liability. The changes in the Insurance Fund's claims liability in 2006 and 2007 were as follows (in thousands):

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2006	$ 46,608	$ 12,490	$ (13,391)	$ 45,707
2007	45,707	22,255	(9,770)	58,192

Safety and Workers' Compensation Fund

The Safety and Workers' Compensation Fund, an internal service fund, accounts for the County's self-insurance for workers' compensation as certified under Title 51 Revised Code of Washington (RCW), Industrial Insurance Act. Interfund premiums are based on the hours worked by the fund/department-covered employees times an hourly rate that varies for different classes of employees and are recorded as quasi-external interfund transactions. Public Transportation and Water Quality internal fund charges are derived from actuarial projections of their future claims and administrative costs. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the financial statements is discounted at 5.25 percent, the County's average forecasted rate of return on investments. As of December 31, 2007, the total discounted claim liability is $64.48 million and the undiscounted carrying amount of the claim liability is $81.89 million.

The County purchases an excess workers' compensation policy that provides statutory limits coverage. The amount of loss retained by King County (the self-insured retention) under this policy, effective September 1, 2004, was $2.5 million. In the prior three years, there has been no settlement in excess of the insurance coverage.

The Fund's claims liability is estimated by an independent actuary and discounted. The claim liability represents the estimated ultimate amount to be paid for reported and incurred but not reported claims based on past experience and other actuarial techniques. Nonincremental claim adjustment expenses are not included as part of the liability. Changes in the Safety and Workers' Compensation Fund's claims liability in 2006 and 2007 were (in thousands):

NOTE 10 – CONTINUED

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2006	$ 54,248	$ 19,547	$ (16,646)	$ 57,149
2007	57,149	23,575	(16,243)	64,481

Employee Benefits Program Fund

The Employee Benefits Program Fund, an internal service fund, accounts for employee medical, dental, vision, life, accidental death and dismemberment, and long-term disability benefit programs. There are three insured and one self-insured medical plans. Seventy-six percent of County employees are insured through the self-insured medical plan. The dental and vision plans are also self-insured. Interfund premiums are determined on a per employee, per month basis and charged to departments through a composite rate of expected claims, expenses and premiums. In some cases, there are employee contributions towards premiums. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund as of December 31, 2007, is $13.87 million.

The Fund's claims liability is based on historical experience. Changes in the Employee Benefits Program Fund's claims liability in 2006 and 2007 were (in thousands):

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2006	$ 13,511	$ 117,453	$ (117,071)	$ 13,893
2007	13,893	123,990	(124,011)	13,872

Unemployment Liability

The County has elected to retain the risk for unemployment compensation payable to former County employees. The State of Washington Employment Security Department bills the County for the unemployment compensation benefits paid to former employees. Expenditures are then recognized in various county funds. In addition, a long-term liability of $1.05 million is recorded in governmental long-term liability for the estimated future claims liability for employees as of December 31, 2007.

Changes in governmental long-term liability for unemployment compensation in 2006 and 2007 were (in thousands):

	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2006	$ 1,271	$ 1,699	$ (1,623)	$ 1,347
2007	1,347	970	(1,266)	1,051

NOTE 10 – CONTINUED

Component Unit – Harborview Medical Center

Insurance Fund

Harborview Medical Center (HMC) participates in a self-insurance revolving fund for professional liability coverage through the University of Washington (UW). As of June 30, 2007, the UW did not carry commercial general liability coverage at levels below $2 million per occurrence. The UW's philosophy with respect to its self-insurance programs is to fully fund its anticipated losses through the establishment of actuarially determined self-insurance reserves. These reserves are deposited in a statutorily created and regulated fund and can only be expended for payment of claim costs and related expenses.

The annual funding to the self-insurance revolving fund is determined by the UW administration based on recommendations from the UW's Risk Management Advisory Committee. The HMC's *pro rata* share of premiums paid to the self-insurance revolving fund were approximately $1.60 million in the period July 1, 2005 to June 30, 2006, and $1.72 million in the period July 1, 2006 to June 30, 2007.

Employee Benefits Program

Eligible permanent employees of HMC receive the basic insurance benefits package that is purchased by the University of Washington through the Public Employees' Benefits Board (PEBB). HMC faculty and staff meeting PEBB eligibility rules receive this package of medical, dental, life, and long-term disability (LTD) insurance. In addition, there are optional employee-paid components to the life and LTD that HMC employees may elect.

All employees of HMC are covered by Workers' Compensation and Medical Aid Acts for injuries and occupational diseases that occur during the course of their employment. Coverage includes doctors' services, hospital care, ambulance, appliances, compensation for permanent, partial, and total disability, and allowances and pensions to surviving spouses and children in the case of fatal injuries. A majority of the premium cost is paid by the UW and a small deduction is made from the employee's pay to conform with the state law.

Component Unit – WSMLBS Public Facilities District

Insurance Fund

The Washington State Major League Baseball Stadium Public Facilities District (PFD) carries commercial general liability insurance with a general aggregate limit of $2 million and a per occurrence limit of $1 million. Excess liability coverage is in force at aggregate and per event limits of $5 million. Business automobile liability coverage limit is at $1 million per any one accident or loss. Commercial personal property losses are covered up to the replacement value not exceeding $100 thousand with separate coverage for earthquake and flood losses. The PFD also has purchased employee benefit liability coverage with an aggregate limit of $3 million and a per employee limit of $1 million.

NOTE 10 – CONTINUED

Component Unit – Cultural Development Authority of King County

Insurance Fund

The Cultural Development Authority of King County (CDA), dba 4Culture, carries comprehensive general liability and auto liability insurance with no aggregate limit per member. The total limit is $10 million and a per occurrence limit of $9.5 million. Commercial property losses are covered up to the replacement cost on file with Washington Governmental Entity Pool.

The CDA also has purchased employee benefit liability coverage with an aggregate limit of $20 million and an aggregate per member limit of $10 million.

Employee Benefits Program

Employees of the CDA have a comprehensive benefits package through the Public Employees' Benefits Board (PEBB). The comprehensive package includes medical, dental, life, and long-term disability coverage. In addition, the PEBB offers the following optional products: long-term care, auto, and home insurance. The State of Washington Health Care Authority (HCA) is the administrating authority. The CDA also offers insurance with American Family Life Assurance Company (AFLAC). With the AFLAC coverage, the CDA employees can pick from a selection of insurance policies.

NOTE 11 – LEASES

Capital Leases

King County has entered into agreements to purchase buildings, machinery, and equipment through capital lease and installment purchase agreements. Assets acquired and liabilities incurred through such agreements for governmental funds are accounted for under Governmental Activities. Such assets and liabilities related to proprietary type funds are accounted for within the proprietary funds (Business-type Activities).

The following is a schedule of capital assets and outstanding liabilities relating to capital lease agreements and installment purchase contracts as of December 31, 2007 (in thousands):

	Capital Assets		Capital Leases Payable	
	Governmental Activities [a]	Business-type Activities	Governmental Activities [b]	Business-type Activities
Land	$ 1,440	$ -	$ -	$ -
Buildings	4,460	-	4,275 [a]	-
Leasehold improvements	-	4,881	-	3,534
Less depreciation	(686)	(943)	-	-
Subtotal	3,774	3,938	4,275	3,534
Machinery and equipment	183	-	49	-
Less depreciation	(73)	-	-	-
Subtotal	110	-	49	-
Totals	$ 5,324	$ 3,938	$ 4,324	$ 3,534

(a) Certain governmental land and buildings that were financed through capital leases in prior years are now reported as directly-owned capital assets in the primary government as a result of a reporting entity change in 2007 that recognizes the lessor corporations as blended component units. (See Note 1, "Summary of Significant Accounting Policies" – Component Units, Building Development and Management Corporations.)

(b) In prior years, limited tax general obligation lease revenue bonds were reported as capital leases pursuant to special financing agreements. In 2007, bonds issued in accordance with the provisions of Revenue Ruling 63-20 have been reclassified as lease revenue bonds of a blended component. See Note 15, "Restrictions, Reserves, Designations and Changes in Equity" - Restatements of Beginning Balances.

The following is a schedule, by year, of future minimum lease payments under capital lease and installment purchase agreements together with the present value of the net minimum lease payments as of December 31, 2007 (in thousands):

NOTE 11 – CONTINUED

	Governmental Activities	Business-type Activities
2008	$ 534	$ 255
2009	482	255
2010	484	255
2011	480	255
2012	481	255
2013-2017	2,407	1,275
2018-2022	964	1,275
2023-2027	-	1,275
2028-2031	-	913
Total minimum lease payments	5,832	6,013
Less: Amount representing interest	(1,508)	(2,479)
Present value of net minimum lease payments	$ 4,324	$ 3,534

Operating Leases

The County has numerous operating lease commitments for office space, equipment, radio towers, and railroad tracks. The Information and Telecommunications Services Fund leases computer hardware; these leases include maintenance agreements. Expenditures for the year ended December 31, 2007, for operating lease and rental agreements for office space, equipment, and other operating leases amount to $37.3 million. The patterns of future lease payment requirements are systematic and rational. Future minimum lease payments for these leases are as follows (in thousands):

Year	Office Space	Equipment	Other	Total
2008	$ 5,973	$ 123	$ 806	$ 6,902
2009	5,131	122	702	5,955
2010	4,500	72	681	5,253
2011	3,761	39	667	4,467
2012	3,430	-	575	4,005
2013-2017	14,562	-	2,838	17,400
2018-2022	1,013	-	2,889	3,902
2023-2027	1,013	-	2,657	3,670
2028-2032	1,013	-	1,817	2,830
2033-2037	216	-	2,006	2,222
2038-2042	-	-	2,215	2,215
2043-2047	-	-	2,445	2,445
2048-2052	-	-	2,700	2,700
2053	-	-	428	428

The County currently leases some of its property to various tenants under long-term, renewable, and non-cancelable contracts. Under business-type activities, the King County Airport Enterprise leases out most of the buildings and grounds in the King County International Airport/Boeing Field complex to companies and government agencies in the aviation industry.

The following schedule is an analysis of the County's investment in property under long-term, non-cancelable operating leases as of December 31, 2007 (in thousands):

NOTE 11 – CONTINUED

	Governmental Activities	Business-type Activities	
		Airport	Other
Land	$ 70	$ 11,220	$ -
Buildings	1,795	50,086	702
Less depreciation	(584)	(28,353)	(95)
Total cost of property under lease	$ 1,281	$ 32,953	$ 607

The following is a schedule of minimum future lease receipts on noncancelable operating leases based on contract amounts and terms as of December 31, 2007 (in thousands):

Year	Governmental Activities	Business-type Activities		Total
		Airport	Other	
2008	$ 2,787	$ 5,205	$ 1,246	$ 9,238
2009	2,527	4,997	763	8,287
2010	2,020	4,983	715	7,718
2011	1,254	4,983	388	6,625
2012	915	4,863	213	5,991

NOTE 12 – LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS

King County is legally responsible for closure and post-closure care costs associated with the County's solid waste landfills. Estimated costs of closure and post-closure care are recognized as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in current dollars. Actual cost may be different due to inflation, changes in technology, or changes in regulations.

State and federal laws and regulations require King County to place a final cover on its Cedar Hills Landfill site when the County stops accepting waste at this location. Certain maintenance and monitoring functions are also required at the sites for 30 years following closure. Enumclaw, Hobart, Duvall, Vashon, and Cedar Falls landfills have been covered. Puyallup, Houghton, Bow Lake, and First Northeast are custodial landfills which were covered 30 or more years ago and are no longer subject to these laws and regulations.

Although closure and post-closure care costs will be paid only near or after the date that the landfills stop accepting waste, the County reports a portion of these costs as an operating expense in each period. The expense is based on landfill capacity used as of each year-end. The $106.8 million reported as landfill closure and post-closure care liability as of December 31, 2007, represents the cumulative percentage reported based on the amount that each of the landfills has been filled to date as follows (dollars in thousands):

Landfill	Percent Filled	Estimated Liability	Estimated Remaining Liability	Estimated Year of Closure
Cedar Hills	82%	$ 65,806	$ 19,975	2015
Covered	100%	32,178	--	(closed)
Custodial	100%	8,832	--	(closed)

The County is required by state and federal laws and regulations to make annual contributions to a reserve fund to finance closure and post-closure care. The County is in compliance with these requirements. As of December 31, 2007, cash and cash equivalents of $42.9 million were held in the Landfill Reserve Fund. Cash and cash equivalents of $20.3 million were held in the Landfill Post-closure Maintenance Fund, a fund designated for these purposes.

The County expects that future cost increases resulting from inflation will be covered by the interest income earned on these annual contributions. However, if interest earnings are inadequate, or additional post-closure care requirements are determined (due to changes in technology or regulations), the County may need to increase future user fees or tax revenues.

The County also established the Environmental Reserve Fund for future investigation and possible remediation of custodial landfills. Landfill investigations and foreseeable remediation efforts are complete; therefore there is no liability recorded for custodial landfills.

NOTE 13 – DEBT

Short-term Debt Instruments and Liquidity

For the year ended December 31, 2007, King County has one short-term debt instrument outstanding. On November 1, 2007, the County issued $43.98 million of limited tax general obligation (GO) bond anticipation notes with a maturity date of November 1, 2008. The proceeds of the notes are accounted for in the Building Construction and Improvement fund. The notes were issued to provide continued interim financing for various projects related to the County Courthouse, the integrated security and jail health project, the Kent Pullen Regional Communications and Emergency Coordination Center, the Pedestrian Tunnel between the Chinook Building and the Goat Hill parking garage, and the acquisition of workstations and furniture for the Chinook Building. Also, a portion of the proceeds were used to pay the cost of issuance of the 2007 notes. The County intends to finance the repayment of the 2007 notes by issuing general obligation bonds in 2008.

The County has $100 million of commercial paper outstanding in the Water Quality Enterprise Fund. The commercial paper outstanding as of December 31, 2007, has maturities ranging from 30 to 154 days. At the time of initial issuance, the proceeds of the commercial paper were transferred to the construction fund for use in the capital activities of the Enterprise. Repayment of the debt will be made from operating revenues. The following schedule provides a summary of changes in short-term debt as of December 31, 2007:

CHANGES IN SHORT-TERM DEBT
FOR THE YEAR ENDED DECEMBER 31, 2007
(IN THOUSANDS)

	Balance 01/01/07	Additions	Reductions	Balance 12/31/07
Governmental activities:				
Limited tax GO bond anticipation notes	$ 83,990	$ 43,975	$ (83,990)	$ 43,975
Unamortized premium bonds sold	273	293	(273)	293
Governmental activities short-term debt	$ 84,263	$ 44,268	$ (84,263)	$ 44,268
Business-type activities:				
Commercial paper	$ 50,000	$ 50,000	$ -	$ 100,000
Business-type activities short-term debt	$ 50,000	$ 50,000	$ -	$ 100,000

Long-term Debt

King County's long-term debt is reported under governmental activities and business-type activities. Governmental activities long-term debt consists of general obligation bonds, general obligation lease revenue bonds, general obligation capital leases, and special assessment bonds with governmental commitment. Payment of special assessment bonds are guaranteed by the Road Improvement Guaranty Fund if a road improvement district fails to pay.

Business-type activities long-term debt consists of limited tax general obligation bonds accounted for in the King County International Airport, Institutional Network (I-NET), Solid Waste, Public Transportation, and Water Quality Enterprise Funds; capital leases accounted for in the Public Transportation Fund; and State of Washington revolving loans and sewer revenue bonds accounted for in the Water Quality Enterprise Fund.

NOTE 13 – CONTINUED

KING COUNTY, WASHINGTON
SCHEDULE OF LONG-TERM DEBT
(IN THOUSANDS)
(PAGE 1 of 4)

	Issue Date	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at 12/31/07
I. GOVERNMENTAL ACTIVITIES – LONG-TERM DEBT					
IA. Limited Tax General Obligation Bonds (LTGO)					
Payable From Limited Tax GO Bond Redemption Fund					
1993 Various Purpose Series B (Partial)	12/01/93	01/01/24	5.35-6.70%	$ 109,436	$ 17,750
1996 Various Purpose Series A (Partial)	02/01/96	01/01/09	5.00-5.25%	105,268	2,275
1997 Baseball Stadium Parking Facilities (Taxable) Series C	04/01/97	12/01/08	7.06-7.79%	25,000	1,275
1997 Baseball Stadium Series D	05/07/97	12/01/09	4.60-5.75%	150,000	37,080
1999 Various Purpose Series A (Partial)	05/01/99	12/01/12	4.00-5.25%	85,695	12,959
2001 Various Purpose (Partial)	11/01/01	12/01/21	3.00-5.00%	26,925	17,250
2002 Refunding 1997B Bonds (Baseball Stadium)	06/04/02	12/01/14	4.00-5.50%	124,575	61,650
2002 Various Purpose (Road CIP) Bonds	10/01/02	12/01/16	2.00-5.00%	38,340	26,865
2003 Limited Tax GO (Payoff BAN 2003B) Series A	10/30/03	06/01/23	2.00-5.25%	27,605	23,915
2003 Various Purpose Refunding Bonds Series B (Partial)	10/30/03	06/01/23	2.00-5.25%	27,890	18,555
2004 Refunding Bonds Series A	09/21/04	01/01/16	2.00-5.00%	57,045	53,085
2004 Limited Tax GO (Payoff BAN2003A) Series B	10/01/04	01/01/25	2.50-5.00%	82,435	77,810
2004 Baseball Stadium (Refg 1997C Partial) (Taxable) Series C	12/21/04	12/01/11	2.92-4.49%	13,195	8,310
2004 Baseball Stadium (Refg 1997D Partial) Series D	12/21/04	12/01/11	3.00-5.00%	32,075	27,710
2005 Refunding Bonds Series A	06/29/05	01/01/19	5.00%	22,510	22,510
2006 Refunding Bonds (Partial)	12/14/06	01/01/19	4.00-5.00%	38,330	37,675
2006 HUD Section 108 Bonds – Greenbridge Project	08/01/06	08/01/24	4.96-5.70%	6,783	6,647
2007 Kingdome Debt Series A Refunding 1997F	09/05/07	12/01/15	4.00-5.00%	48,665	48,100
2007 Kingdome Debt Series B Refunding 1997E (Taxable)	09/05/07	12/01/10	4.98-5.11%	5,900	4,550
2007 Various Purpose Series C	11/01/07	01/01/28	4.00-4.50%	10,695	10,695
2007 Various Purpose Series D	11/01/07	01/01/28	4.00-5.00%	34,630	34,630
2007 Various Purpose Series E (Partial)	11/27/07	12/01/17	4.00-5.00%	3,070	3,070
Total Payable From Limited Tax GO Redemption Fund				1,076,067	554,366
Payable From Internal Service Funds					
1999 Various Purpose Series A	05/01/99	12/01/09	4.00-5.25%	525	120
2001 Various Purpose (Partial)	11/01/01	12/01/11	3.00-5.00%	1,050	470
Total Payable From Internal Service Funds				1,575	590
IB. Limited Tax GO Capital Leases					
Payable From Public Health	Various	Various	Various	183	49
Payable From General Fund – 1998 Certificates of Participation - Issaquah District Court	09/29/98	12/01/19	3.80-5.05%	5,900	4,275
Total Limited Tax GO Capital Leases				6,083	4,324

KING COUNTY, WASHINGTON
SCHEDULE OF LONG-TERM DEBT
(IN THOUSANDS)
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	Issue Date	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at 12/31/07
I. GOVERNMENTAL ACTIVITIES – LONG-TERM DEBT					
IC. Limited Tax GO Lease Revenue Bonds [a]					
Payable From Internal Service Funds					
1997 King Street Center Project	06/01/97	06/01/08	4.50-5.13%	$ 78,275	$ 2,235
2002 Broadway Office Property – HMC Office Space	11/13/02	12/01/31	4.00-5.38%	62,540	60,075
2005 Goathill Property – Chinook Building	02/03/05	12/01/33	4.00-5.25%	101,035	101,035
2006A NJB Properties – HMC	12/05/06	12/01/36	5.00%	179,285	179,285
2006B NJB Properties – HMC (Taxable)	12/05/06	12/01/36	5.51%	10,435	10,435
2007 King Street Center Project Refunding 1997	03/08/07	06/01/25	4.00-5.00%	62,400	61,470
Total Limited Tax GO Lease Revenue Bonds				493,970	414,535
Total Limited Tax General Obligation Debt				1,577,695	973,815
ID. Unlimited Tax General Obligation Bonds (ULTGO)					
Payable From Unlimited Tax GO Redemption Fund					
2000 Refunding Bonds (Partial)	10/01/00	06/01/16	5.00-5.50%	102,740	43,235
2001 Harborview Medical Center	02/01/01	12/01/20	4.00-5.00%	29,130	23,745
2003 Refunding 1993 Series C Bonds	04/23/03	06/01/19	2.00-5.25%	108,795	37,155
2004 Harborview Medical Center Series A	05/04/04	12/01/23	2.00-5.00%	110,000	100,920
2004 Harborview Medical Center Series B	09/14/04	06/01/23	3.00-5.00%	54,000	50,395
Total Payable From Unlimited Tax GO Bond Redemption Fund				404,665	255,450
Payable From Stadium GO Bond Redemption Fund					
2000 Refunding Bonds (Partial)	10/01/00	06/01/12	5.00-5.50%	18,880	8,815
Total Unlimited Tax General Obligation Bonds				423,545	264,265
IE. Special Assessment General Long-Term Debt					
Special assessment bonds with governmental commitment – bonds payable from Road Improvement Districts S.A. Bond Redemption Fund – 1986 RID 2 Consolidated	07/01/86	07/01/08	7.88-8.25%	286	15
TOTAL GOVERNMENTAL ACTIVITIES – LONG-TERM DEBT				2,001,526	1,238,095

KING COUNTY, WASHINGTON
SCHEDULE OF LONG-TERM DEBT
(IN THOUSANDS)
(PAGE 3 of 4)

	Issue Date	Final Maturity	Interest Rates	Original Issue Amount	Outstanding at 12/31/07
II. BUSINESS-TYPE ACTIVITIES – LONG-TERM DEBT					
IIA. Limited Tax General Obligation Bonds (LTGO)					
Payable From Enterprise Funds					
1996 LTGO Refunding (Revenue Bonds) Series C	12/15/96	01/01/08	5.00-6.25%	$ 130,965	$ 2,730
1998 LTGO (Public Transportation Sales Tax) Refunding Series A	05/15/98	12/01/19	4.50-5.00%	85,715	53,400
1998 LTGO Refunding (WQ-LTGO & Revenues) Series B	09/15/98	01/01/34	4.75-5.25%	261,625	247,810
1999 LTGO Refunding Series A (Partial)	05/01/99	12/01/12	4.00-5.25%	8,720	6,161
2001 LTGO Various Purpose (Partial)	11/01/01	12/01/21	3.00-5.00%	8,580	6,820
2002 LTGO (Public Transportation Sales Tax) Refunding Bonds	11/05/02	12/01/19	3.00-5.50%	64,285	50,735
2004 LTGO (Public Transportation Sales Tax) Bonds	06/08/04	06/01/34	2.50-5.50%	49,695	47,265
2005 LTGO (WQ-LTGO) Bonds	04/21/05	01/01/35	5.00%	200,000	200,000
2006 Refunding Bonds (Partial)	12/14/06	01/01/15	4.00-5.00%	7,995	7,865
2007 Various Purpose Series E (Partial)	11/27/07	12/01/27	4.00-5.00%	40,635	40,635
Total Limited Tax GO Bonds Payable From Enterprise Funds				858,215	663,421
IIB. Revenue Bonds, Capital Leases and Loans					
Payable From Enterprise Funds					
1999 Sewer Revenue Bonds Series 2	11/01/99	01/01/09	5.00-6.25%	60,000	2,270
2001 Sewer Revenue Bonds Junior Lien Series A	08/06/01	01/01/32	Variable Rate [b]	50,000	50,000
2001 Sewer Revenue Bonds Junior Lien Series B	08/06/01	01/01/32	Variable Rate [b]	50,000	50,000
2001 Sewer Revenue and Refunding Bonds	11/28/01	01/01/35	3.00-5.25%	270,060	229,925
2002 Sewer Revenue Bonds Series A	08/14/02	01/01/35	5.00-5.50%	100,000	94,960
2002 Sewer Revenue Refunding Bonds Series B	10/03/02	01/01/33	3.00-5.50%	346,130	291,715
2003 Sewer Revenue Refunding Bonds	04/24/03	01/01/35	2.00-5.25%	96,470	93,005
2004 Sewer Revenue Bonds Series A	03/18/04	01/01/35	4.50-5.00%	185,000	185,000
2004 Sewer Revenue Refunding 1999-2 Bonds Series B	03/18/04	01/01/35	2.00-5.00%	61,760	59,840
2006 Sewer Revenue and Refunding 1999-1 Bonds Series A	05/16/06	01/01/36	5.00%	124,070	124,070
2006 Sewer Revenue Bonds Junior Lien Multi-Modal Series A	10/04/06	01/01/36	Variable Rate [c]	50,000	50,000
2006 Sewer Revenue Bonds Junior Lien Multi-Modal Series B	10/04/06	01/01/36	Variable Rate [c]	50,000	50,000
2006 Sewer Revenue and Refunding Bonds Series B-2	11/30/06	01/01/36	3.50-5.00%	193,435	193,435
2007 Sewer Revenue Bonds	06/26/07	01/01/47	5.00%	250,000	250,000
2000-2007 State of Washington Revolving Loans	Various	Various	0.50-1.50%	141,335	118,524
2000 Public Transportation Park and Ride Capital Leases	03/30/00	12/31/31	5.00%	4,722	3,534
Total Revenue Bonds, Capital Leases and Loans Payable From Enterprise Funds				2,032,982	1,846,278
TOTAL BUSINESS-TYPE ACTIVITIES – LONG-TERM DEBT				2,891,197	2,509,699
TOTAL LONG-TERM DEBT (EXCLUDING GO LONG-TERM LIABILITIES)				$ 4,892,723	$ 3,747,794

NOTE 13 – CONTINUED

KING COUNTY, WASHINGTON
SCHEDULE OF LONG-TERM DEBT
(IN THOUSANDS)
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(a) In prior years, limited tax general obligation lease revenue bonds were reported as capital leases pursuant to special financing agreements. In 2007, these bonds issued in accordance with the provisions of Revenue Ruling 63-20 of the US Treasury were reclassified as general obligation lease revenue bonds of a blended component unit in the internal service funds. See Note 15, "Restrictions, Reserves, Designations, and Changes in Equity" – Restatements of Beginning Balances.

(b) The variable rate bonds initially issued in the Weekly Mode will bear interest at Weekly Rates. The Weekly Rate for each Interest Period is determined by the Remarketing Agents. The bonds in the Weekly Mode may be changed to or from the Weekly Mode to or from a Daily Mode, a Commercial Paper Mode, or a Long-term Mode, or to a Fixed Mode, upon satisfaction of the "Change in Modes" conditions.

(c) The variable rate bonds initially issued in the Weekly Mode will bear interest at Weekly Rates. The Weekly Rate for each Interest Period is determined by the Remarketing Agents. The County may elect to convert one or both series of the Bonds to Daily Mode, Flexible Mode, Term Rate Mode, Fixed Rate Mode or Auction Rate Securities ("ARS") Mode.

NOTE 13 – CONTINUED

KING COUNTY, WASHINGTON
DEBT SERVICE REQUIREMENTS TO MATURITY
(IN THOUSANDS)

GOVERNMENTAL ACTIVITIES

Year	General Obligation Bonds		General Obligation Lease Revenue Bonds		General Obligation Capital Leases and Special Assessment Bonds		Total Governmental Activities	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 78,793	$ 39,001	$ 5,895	$ 20,258	$ 339	$ 210	$ 85,027	$ 59,469
2009	82,771	35,786	6,185	19,975	285	197	89,241	55,958
2010	71,044	31,944	6,465	19,689	300	184	77,809	51,817
2011	58,621	28,521	10,465	19,390	310	170	69,396	48,081
2012	59,913	25,580	10,965	18,892	325	156	71,203	44,628
2013-2017	259,074	79,899	63,505	85,775	1,885	522	324,464	166,196
2018-2022	146,931	33,942	80,425	68,858	895	69	228,251	102,869
2023-2027	58,754	4,986	89,200	47,965	-	-	147,954	52,951
2028-2032	3,320	78	92,835	26,205	-	-	96,155	26,283
2033-2037	-	-	48,595	6,126	-	-	48,595	6,126
TOTAL	$ 819,221	$ 279,737	$ 414,535	$ 333,133	$ 4,339	$ 1,508	$ 1,238,095	$ 614,378

BUSINESS-TYPE ACTIVITIES

Year	General Obligation Bonds		Revenue Bonds, Capital Leases and Loans		Total Business-Type Activities		Total Long-Term Debt (Excluding General Obligation Long-Term Liabilities)	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 18,035	$ 32,940	$ 32,976	$ 70,621	$ 51,011	$ 103,561	$ 136,038	$ 163,030
2009	16,017	32,180	37,281	75,174	53,298	107,354	142,539	163,312
2010	16,767	31,405	38,932	73,522	55,699	104,927	133,508	156,744
2011	16,000	30,634	40,637	71,800	56,637	102,434	126,033	150,515
2012	16,742	29,842	42,407	70,154	59,149	99,996	130,352	144,624
2013-2017	98,045	136,290	227,978	320,257	326,023	456,547	650,487	622,743
2018-2022	127,140	104,991	221,761	271,018	348,901	376,009	577,152	478,878
2023-2027	130,195	73,979	253,785	217,155	383,980	291,134	531,934	344,085
2028-2032	147,095	38,926	405,071	150,255	552,166	189,181	648,321	215,464
2033-2037	77,385	4,968	361,525	71,138	438,910	76,106	487,505	82,232
2038-2042	-	-	80,805	38,295	80,805	38,295	80,805	38,295
2043-2047	-	-	103,120	15,971	103,120	15,971	103,120	15,971
TOTAL	$ 663,421	$ 516,155	$ 1,846,278	$ 1,445,360	$ 2,509,699	$ 1,961,515	$ 3,747,794	$ 2,575,893

NOTE 13 – CONTINUED

The following table summarizes changes in long-term liabilities for the year ended December 31, 2007 (in thousands).

	Balance 01/01/07	Additions	Reductions	Balance 12/31/07	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 870,445	$ 102,960	$ (154,184)	$ 819,221	$ 78,793
Special assessment bonds with governmental commitment	15	-	-	15	15
Less deferred amounts:					
Unamortized premium bonds sold	26,882	3,890	(4,600)	26,172	-
Refunding	(14,475)	(1,968)	3,511	(12,932)	-
Total bonds payable	882,867	104,882	(155,273)	832,476	78,808
Limited GO lease revenue bonds	131,750	353,155	(70,370)	414,535	5,895
Limited GO capital leases	4,695	-	(371)	4,324	324
Claims and judgments payable	700	-	(700)	-	-
Compensated absences liability	78,774	(2,592)	4,836	81,018	5,200
Other postemployment benefits	-	5,542	-	5,542	-
Unemployment compensated liabilities	1,347	970	(1,266)	1,051	1,051
Estimated claims settlements and other liabilities	116,823	169,842	(150,061)	136,604	87,200
Rebatable arbitrage	177	31	-	208	90
Total Governmental activities long-term liabilities	$ 1,217,133	$ 631,830	$ (373,205)	$ 1,475,758	$ 178,568
Business-type activities:					
Bonds payable:					
General obligation bonds	$ 642,383	$ 40,635	$ (19,597)	$ 663,421	$ 18,035
Revenue bonds	1,499,105	250,000	(24,885)	1,724,220	26,315
Less deferred amounts:					
Unamortized premium bonds sold	34,475	8,066	(2,731)	39,810	-
Refunding	(77,663)	(293)	9,567	(68,389)	-
Total bonds payable	2,098,300	298,408	(37,646)	2,359,062	44,350
Capital leases	3,611	-	(77)	3,534	81
State revolving loans	118,622	5,374	(5,472)	118,524	6,580
Claims and judgments payable	1,882	-	(1,882)	-	-
Compensated absences liability	54,275	15,651	(14,971)	54,955	7,032
Other postemployment benefits	-	1,106	-	1,106	-
Landfill closure and post-closure care liability	92,879	18,918	(4,981)	106,816	6,000
Environmental remediation and other liabilities	12,601	2,905	(1,039)	14,467	-
Total Business-type activities long-term liabilities	$ 2,382,170	$ 342,362	$ (66,068)	$ 2,658,464	$ 64,043

Governmental activities long-term liabilities, other than debt, are primarily estimated claims settlements liquidated by internal service funds. At year-end, internal service funds estimated claims settlements of $136.5 million are included in the above amount. Governmental activities compensated absences are liquidated by the governmental fund in which an employee receiving the payment is budgeted, including most notably the General Fund, the Public Health Fund, and the County Road Fund.

NOTE 13 – CONTINUED

Computation of Legal Debt Margin

Under Washington State law (RCW 39.36.020), a county may incur general obligation debt for general county purposes in an amount not to exceed 2½ percent of the assessed value of all taxable property within the county. State law requires all property to be assessed at 100 percent of its true and fair value. Unlimited tax general obligation debt requires an approving vote of the people; any election to validate such general obligation debt must have a voter turnout of at least 40 percent of those who voted in the last state general election and, of those voting, 60 percent must be in the affirmative. The County Council may by resolution authorize the issuance of limited tax general obligation debt in an amount up to 1½ percent of assessed value of property within the County for general county purposes and 3/4 percent for metropolitan functions, but the total of limited tax general obligation debt for general county purposes and metropolitan functions should not exceed 1½ percent of assessed value. No combination of limited and unlimited tax debt, for general county purposes, and no combination of limited and unlimited tax debt, for metropolitan functions, may exceed 2½ percent of the valuation. The debt service on unlimited tax debt is secured by excess property tax levies, whereas the debt service on limited tax debt is secured by property taxes collected within the $1.80 per $1,000 of assessed value operating levy. The legal debt margin computation for the year ended December 31, 2007 is as follows (in thousands):

2007 ASSESSED VALUE (2008 TAX YEAR)	$	340,995,440
Debt limit of limited tax (LT) general obligations for metropolitan functions		
3/4 % of assessed value	$	2,557,466
Less: Net LT general obligation indebtedness for metropolitan functions		(697,894)
LT GENERAL OBLIGATION DEBT MARGIN FOR METROPOLITAN FUNCTIONS	$	1,859,572
Debt limit of LT general obligations for general county purposes and metropolitan functions – 1½ % of assessed value	$	5,114,932
Less: Net LT general obligation indebtedness for general county purposes		(1,067,840)
Net LT general obligation indebtedness for metropolitan functions		(697,894)
Net total LT general obligation indebtedness for general county purposes and metropolitan functions		(1,765,734)
LT GENERAL OBLIGATION DEBT MARGIN FOR GENERAL COUNTY PURPOSES AND METROPOLITAN FUNCTIONS	$	3,349,198
Debt limit of total general obligations for metropolitan functions		
2½ % of assessed value	$	8,524,886
Less: Net total general obligation indebtedness for metropolitan functions		(697,894)
TOTAL GENERAL OBLIGATION DEBT MARGIN FOR METROPOLITAN FUNCTIONS	$	7,826,992
Debt limit of total general obligations for general county purposes		
2½ % of assessed value	$	8,524,886
Less: Net unlimited tax general obligation indebtedness for general county purposes		(253,635)
Net LT general obligation indebtedness for general county purposes		(1,067,840)
Net total general obligation indebtedness for general county purposes		(1,321,475)
TOTAL GENERAL OBLIGATION DEBT MARGIN FOR GENERAL COUNTY PURPOSES	$	7,203,411

NOTE 13 – CONTINUED

Refunding and Defeasing General Obligation Bond Issues – 2007

Limited Tax General Obligation Refunding Bonds, 2007A – On September 5, 2007, the County issued $48.7 million in limited tax general obligation bonds, 2007 Series A with an effective interest cost of 4.06 percent to advance refund $50.6 million of outstanding limited tax general obligation bonds, 1997 Series F with an effective interest cost of 5.15 percent. The net proceeds were used to purchase US government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by $708 thousand. This amount, reported in the statement of net assets as a reduction in bonds payable, is being charged to operations through fiscal year 2015, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by $3.8 million over the life of the bonds and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $3.2 million.

Limited Tax General Obligation Refunding Bonds, 2007B – Also, on September 5, 2007, the County issued $5.9 million in limited tax general obligation bonds, 2007 Series B with an effective interest cost of 5.24 percent to advance refund $5.7 million of outstanding limited tax general obligation bonds, 1997 Series E with an effective interest cost of 6.94 percent. The net proceeds were used to purchase US government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by $130 thousand. This amount, reported in the statement of net assets as a reduction in bonds payable, is being charged to operations through fiscal year 2010, using the outstanding principal balance method. This advance refunding was undertaken to reduce total debt service payments by $1.9 million over the life of the bonds and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $748 thousand.

Partial Defeasance of Limited Tax General Obligation (Baseball Stadium) Refunding Bonds, 2007
On December 13, 2007, the County completed a partial defeasance of limited tax general obligation (Baseball Stadium) refunding bonds, 2002 for $10.9 million using the excess proceeds from special taxes and revenues. The reacquisition price exceeded the net carrying amount of the old debt by $1.1 million. This amount, reported in the statement of net assets as a reduction in bonds payable, is being charged to operations through fiscal year 2014, using the outstanding principal balance method. The transaction resulted in an economic loss of $367 thousand for the year ended December 31, 2007.

Refunding General Obligation Lease Revenue Bond Issues – 2007

Limited Tax Lease Revenue Refunding Bonds, 2007 (King Street Center Project) – On March 8, 2007, the CDP – King County III, acting as an "on-behalf-of-issuer" of King County, issued $62.4 million in general obligation lease revenue bonds, 2007 (King Street Center Project) with an effective interest cost of 4.37 percent to advance refund $66.06 million of its outstanding general obligation lease revenue bonds, 1997 with an effective interest cost of 5.22 percent. The net proceeds were used to purchase US government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the governmental activities column of the statement of net assets. This advance refunding was undertaken to reduce total debt service payments by $4.8 million over the life of

NOTE 13 – CONTINUED

the bonds and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $3.3 million.

Refunded Bonds

King County has eleven outstanding refunded and defeased bond issues consisting of limited tax general obligation bonds ($57.5 million), unlimited tax general obligation bonds ($20.1 million) and sewer revenue bonds ($138.8 million) that were originally reported in the Primary Government's statement of net assets. The payments of principal and interest on these bond issues are the responsibility of the escrow agent, the US Bank of Washington, and the liability for the defeased bonds has been removed from the statement of net assets.

Future Borrowing Plans

During the first quarter of 2008, the County sold $237 million of limited tax general obligation refunding bonds (payable from Sewer Revenues) to refund $244.3 million of its outstanding 1998 Series B bonds.

The County expects to issue approximately $100 million of new long-term limited tax general obligation bonds during 2008. The proceeds of these bonds will be used to provide funding for certain capital facilities projects and other small projects.

For the remainder of this decade the County expects to issue over $1 billion of new debt to provide continuing funding for its Wastewater Treatment Division's capital improvement program. While most of this new debt will be in the form of Sewer Revenue Bonds, a portion will be comprised of general obligation bonds that are additionally secured by a pledge of sewer revenues.

Also, the County intends to take advantage of favorable interest rates by refinancing any outstanding higher rate bonds when and if market conditions permit.

NOTE 14 – INTERFUND BALANCES AND TRANSFERS

Interfund Balances

Due from/to other funds and interfund short-term loans receivable and payable (in thousands)

Fund types with account balances of less than $500 thousand are aggregated into "All Others."

Receivable Fund	Payable Fund	Amount
General Fund	General Fund	$ 909
	Nonmajor Governmental Funds	8,258
	Nonmajor Enterprise Funds	2,471
	Internal Service Funds	2,473
	All Others	285
Public Health Fund	Nonmajor Governmental Funds	1,781
	All Others	472
Nonmajor Governmental Funds	General Fund	5,954
	Nonmajor Governmental Funds	18,496
	Water Quality Enterprise	3,662
	Nonmajor Enterprise Funds	872
	Internal Service Funds	1,861
	All Others	142
Public Transportation Enterprise	Nonmajor Governmental Funds	1,249
	Public Transportation Enterprise	24,128
	All Others	167
Water Quality Enterprise	Nonmajor Governmental Funds	2,153
	Water Quality Enterprise	900
	All Others	157
Nonmajor Enterprise Funds	All Others	729
Internal Service Funds	General Fund	713
	Nonmajor Governmental Funds	2,256
	Internal Service Funds	987
	All Others	456
Total		$ 81,531

The interfund balances resulted from the time lag between the dates: (1) when interfund goods and services were provided or reimbursable expenditures incurred, and when interfund payments were made; and (2) when interfund short-term loans were made and when the loans were repaid.

NOTE 14 – CONTINUED

Advances from/to other funds (in thousands)

Receivable Fund	Payable Fund	Amount
General Fund	Public Transportation Enterprise	$ 3,500
	Nonmajor Governmental Funds	300
Public Transportation Enterprise	General Fund	900
	Nonmajor Governmental Funds	46
Total		$ 4,746

The advances from the General Fund to the Public Transportation Enterprise and Nonmajor Governmental Funds consisted of loans made for the purposes of cash flow. Neither advance is scheduled to be repaid in 2008.

The $900 thousand advance from the Public Transportation Enterprise to the General Fund, which arose from the sale of the Tashiro-Kaplan Building, is reported as "Advances to other funds" in the Public Transportation Enterprise and as "Advances from other funds" in the General Fund. $300 thousand of the balance is scheduled to be collected in 2008. The $46 thousand advance from the Public Transportation Enterprise to Nonmajor Governmental Funds was used to acquire capital assets. $46 thousand of the total advance to Nonmajor Governmental Funds is scheduled to be collected in 2008.

Interfund Transfers (in thousands)

Fund types with account balances of less than $500 thousand are aggregated into "All Others."

Transfers Out	Transfers In	Amount
General Fund	Public Health Fund	$ 29,534
	Nonmajor Governmental Funds	36,639
	Internal Service Funds	1,211
Public Health Fund	All Others	192
Nonmajor Governmental Funds	Nonmajor Governmental Funds	107,096
	All Others	391
Public Transportation Enterprise	Nonmajor Governmental Funds	659
Water Quality Enterprise	All Others	159
Nonmajor Enterprise Funds	All Others	385
Internal Service Funds	Nonmajor Governmental Funds	3,472
	All Others	68
Total transfers in		179,806
Transfer out of capital assets		2,387
Total transfers out		$ 182,193

NOTE 14 – CONTINUED

Transfers are used to move resources from a fund collecting them to the fund using them, as required by statute or budget, and to account for ongoing operating subsidies between funds in accordance with budget authorizations.

In the fund financial statements, total transfers out exceed total transfers in because there were $2,387 thousand of capital assets transferred during the year.

Transfers Out	Transfers In	Amount
Public Transportation Enterprise	Nonmajor Enterprise Funds	$ 92
Water Quality Enterprise	Nonmajor Enterprise Funds	2
Nonmajor Enterprise Funds	Nonmajor Governmental Funds	11
	Nonmajor Enterprise Funds	5
	Internal Service Funds	15
Internal Service Funds	General Fund	70
	Public Health Fund	2
	Nonmajor Governmental Funds	2,177
	Nonmajor Enterprise Funds	5
	Internal Service Funds	8
Total		$ 2,387

NOTE 15 – RESTRICTIONS, RESERVES, DESIGNATIONS, AND CHANGES IN EQUITY

Net Assets

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are classified into three categories:

Invested in capital assets, net of related debt – Consists of capital assets net of accumulated depreciation and reduced by outstanding balances of bonds, notes and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets – Results when constraints are placed on net asset use either by external parties or by law through constitutional provision or enabling legislation.

Unrestricted net assets – Consists of net assets that do not meet the definition of the two preceding categories.

Restricted Net Assets – Business-type Activities (in thousands)

$ 309,571	Public Transportation Enterprise restricted for future construction projects ($298,722) and debt service ($10,849).
97,202	Water Quality Enterprise restricted for future construction projects ($59,515), debt service ($32,595), and litigation settlements ($5,092).
9,105	King County International Airport Enterprise restricted for future construction projects.
3,240	Radio Communications Enterprise restricted for construction.
$ 419,118	Total Business-type Restricted Net Assets

Restricted Net Assets – Internal Service Funds (in thousands)

$ 32,682	Building Development & Management Corporations Fund restricted for future construction projects ($5,865) and debt service ($26,817).

Reserves and Designations

King County records two general types of reserves. One type indicates that a portion of the fund balance is legally segregated for a specific future use; the other type indicates that a portion of the fund balance is not available for appropriation. Designated fund balances, on the other hand, represent tentative plans (including those plans prescribed by local ordinance) for future use of financial resources.

NOTE 15 – CONTINUED

Following is a list of all reserves and designations used by King County and a description of each:

Reserved Fund Balances (in thousands)

	General Fund	Public Health Fund	Nonmajor Special Revenue	Nonmajor Debt Service	Nonmajor Capital Projects
Reserved for:					
Inventory	$ -	$ 425	$ -	$ -	$ -
Prepayments	-	-	5,808	-	-
Encumbrances	10,130	290	21,865	-	51,015
Advances to other funds	3,800	-	-	-	-
Animal services	562	-	-	-	-
Crime victim compensation program	65	-	-	-	-
Criminal justice	10,538				
Debt service	-	-	330	-	-
Drug enforcement program	780	-	-	-	-
Antiprofiteering program	95	-	-	-	-
Dispute resolution centers	105	-	-	-	-
Inmate welfare	954	-	-	-	-
Laptop replacement	292	-	-	-	-
Real property title assurance	25	-	-	-	-
Training and equipment for Medic One	-	61	-	-	-
Youth sports facilities grant endowment	-	-	646	-	-
PFD stadium bond debt service	-	-	-	12,358	-
PFD stadium bond debt service - escrow	-	-	-	4,877	-
Traffic mitigation	-	-	-	-	3,370
Total reserved fund balances	$ 27,346	$ 776	$ 28,649	$ 17,235	$ 54,385

Reserved for inventory – Segregates a portion of fund balance in the amount of the inventory of supplies carried as an asset; it represents resources that are not available and spendable for the fund's current operations.

Reserved for prepayments – Segregates a portion of fund balance equal to the asset prepayments; it does not represent available, spendable resources for the fund's current operations.

Reserved for encumbrances – Segregates a portion of fund balance for commitments made for goods or services that have not been delivered or completed as of year-end. The budget for these commitments will be reestablished in the new year without reappropriation.

Reserved for advances to other funds – Segregates a portion of fund balance for advances to other funds (the noncurrent portion of interfund loans receivable) to indicate that they do not constitute available financial resources and are not available for appropriation.

Reserved for animal services – Segregates a portion of fund balance to indicate that resources are restricted solely for the purpose of funding the animal services program, which promotes and enforces the humane treatment of the animal population of King County.

NOTE 15 – CONTINUED

Reserved for crime victim compensation program – Segregates a portion of fund balance to indicate that resources are legally restricted to the crime victim compensation program and are not spendable resources for other expenditures (chapter 7.68 RCW).

Reserved for criminal justice – Segregates a portion of fund balance to indicate that resources are to be used exclusively for criminal justice purposes (RCW 82.14.340).

Reserved for debt service – Segregates a portion of fund balance to indicate that resources are to be used solely for the payment of debt service.

Reserved for drug enforcement program – Segregates a portion of fund balance to indicate that resources are legally restricted solely for the purpose of enhancing enforcement of the Uniform Controlled Substances Act, chapter 69.50 RCW, or other laws regulating controlled substances, including training, equipment, and operational expenses.

Reserved for antiprofiteering program – Segregates a portion of fund balance to indicate that resources are legally restricted solely for the purposes of the investigation and prosecution of any offense included in the definition of criminal profiteering set forth in chapter 9A.82 RCW.

Reserved for dispute resolution centers – Segregates a portion of fund balance to indicate that resources are legally restricted solely for the purpose of funding dispute resolution centers (RCW 7.75.035).

Reserved for inmate welfare – Segregates a portion of fund balance to indicate that resources are restricted solely for the purpose of the welfare of inmates held by the Department of Adult and Juvenile Detention.

Reserved for laptop replacement – Segregates a portion of fund balance to indicate that resources are restricted solely for the purpose of replacing laptop computers used by law enforcement officers.

Reserved for real property title assurance – Segregates a portion of fund balance to indicate that resources are legally restricted solely for the purpose of the payment of damages to any person sustaining loss or damage, through any omission, mistake, or misfeasance of the registrar of titles, or of any examiner of titles, or of any deputy, or by the mistake or misfeasance of the clerk of the court, or any deputy, in the performance of their respective duties under the provisions of chapter 65.12 RCW Registration of Land Titles (Torrens Act).

Reserved for training and equipment for Medic One – Segregates a portion of fund balance to indicate that the use of donations from individuals to Medic One are restricted to equipment purchases and training for paramedics and medical services officers.

Reserved for youth sports facilities grant endowment – Segregates a portion of fund balance pending a decision to establish a separate Permanent Fund for an endowment. The investment income from the endowment will be used exclusively to supplement the Youth Sports Facilities Grant Fund for the acquisition and operation of outdoor sports fields for youth.

Reserved for PFD stadium bond debt service – Segregates the revenues collected by the County that are earmarked for future debt service payments on the 1997A-1, 1997B, 1997D, 2002 Refunding, and 2004D Refunding tax exempt Baseball Stadium bond issues.

Reserved for PFD stadium bond debt service – escrow – Segregates the revenues collected by the County that are earmarked for future debt service payments on the 1997A-2, 1997C, and 2004C Refunding taxable Baseball Stadium bond issues.

NOTE 15 – CONTINUED

Reserved for traffic mitigation – Segregates a portion of fund balance related to the mitigation payment system revenues to indicate that resources are restricted solely for the purpose of funding growth-related traffic mitigation projects (King County Code 14.75.030).

Designated Fund Balances (in thousands)

	General Fund	Public Health Fund	Nonmajor Special Revenue
Designated for:			
Equipment replacement	$ -	$ -	$ 6,695
Capital projects	4,534	-	-
DDES	-	-	2,523
Environmental health services	-	3,625	-
FEMA match	-	-	164
Operating reserve	-	-	13,349
PIHP risk reserve	-	-	2,700
Reappropriation	588	653	7,420
Contingencies	15,903	-	-
Children and family services program	2,294	-	-
Total designated fund balances	$ 23,319	$ 4,278	$ 32,851

Designated for equipment replacement – Indicates that a portion of fund balance has been earmarked for the replacement of equipment.

Designated for capital projects – Identifies a portion of fund balance in the General Fund equal to the budget for capital projects not expended and expected to be reappropriated for the coming year. The projects may be decreased, increased, and changed in scope by the County Council in their budget deliberations.

Designated for DDES – In the Department of Development and Environmental Services (DDES) Fund, this account sets aside revenues for permit fee supported areas of DDES in the following categories: (1) reserve for staff reductions; (2) revenue shortfall reserve (amount to cover a 15 percent fee revenue shortfall for three months at the budgeted level for fee revenue); and (3) reserve for fee waivers and other unanticipated costs.

Designated for environmental health services – Segregates environmental health fee revenue which may only be used by Environmental Health Services as mandated by the Board of Health.

Designated for FEMA match – Identifies a portion of fund balance in the Flood Control Zone Districts Fund that has been designated for future use as a local match for federal and state grants in the event of a federally-declared flood disaster.

Designated for operating reserve – Funds designated from Mental Health revenue that are set aside according to the King County Regional Services Network (KCRSN)'s contract with the State Mental Health Division, totaling approximately 5 percent of annual revenues if funds are available. Operating reserve funds are set aside to maintain adequate cash flow for the provision of mental health services.

Designated for Prepaid Inpatient Health Plan (PIHP) risk reserve – Funds used to cover inpatient adjustments, outpatient tier benefits, and closeout expenditures in case the King County

NOTE 15 – CONTINUED

Regional Support Network (KCRSN) becomes insolvent. The KCRSN is funded primarily by capitated payments from the State based on the number of Medicaid recipients in King County. These revenues support services for people with mental illness in King County.

Designated for reappropriation – Used at year-end for lapsed appropriations for which special requests have been made to obtain reappropriation in the coming year.

Designated for contingencies – In the General Fund, this account segregates a portion of fund balance to indicate that resources have been earmarked by county ordinance for the following: (1) maintenance of essential county services in the event that General Fund revenue collections in a given fiscal year are less than 97 percent of adopted estimated revenues; (2) payment of legal settlements relating to the collection of past General Fund revenues; (3) payment of catastrophic losses in excess of the Insurance Fund reserve and all other fund balances; and (4) requests for priority capital maintenance projects if and when the contingencies reserve exceeds $15 million.

Designated for children and family services programs – Segregates a portion of fund balance to indicate that resources have been earmarked by county ordinance to provide children and family services to the residents of King County.

Management Plans for Internal Service Fund Unrestricted Net Assets

The following Internal Service Funds have resources that have been earmarked by County management for a specific future use as of December 31, 2007:

Department of Executive Service (DES) Equipment Replacement Fund – $772 thousand for the replacement of personal computers.

Information and Telecommunications Services Fund – Telecommunications Subfund – $677 thousand for the replacement of telecommunications equipment.

Insurance Fund – $14.4 million for catastrophic losses. The catastrophic loss reserve will be used to respond to large, nonrecurring losses exceeding $1 million per incident.

King County Geographic Information Service (GIS) Fund – $48 thousand for the replacement of GIS equipment, $100 thousand for rate stabilization, and $59 thousand for prepaid client services.

Motor Pool Equipment Rental Fund – $4.9 million for the replacement of rental equipment.

Public Works Equipment Rental Fund – $7.0 million for the replacement of rental equipment.

Wastewater Equipment Rental Fund – $5.6 million for the replacement of rental equipment.

Restatements of Beginning Balances

The following schedules present detailed information regarding restatements of beginning balances (in thousands):

Risk Abatement – The Clark Contract Administration Fund and the Logan/Knox Settlement Fund were administratively closed in 2007. The balances in those funds were transferred to the Risk Abatement Fund. Both funds will be closed by ordinance in 2008.

Road Improvement Districts Maintenance Fund – This adjustment was to reverse a 2006 posting error. The adjustment required the beginning 2007 balance be manually adjusted.

NOTE 15 – CONTINUED

Governmental Activities – The prior period adjustments in infrastructure and related right-of-way costs resulted from: 1) reclassification of previously capitalized costs as preservation to be in line with federal reporting guidelines that were revised for GASBS 34; 2) recognition of a prior year's transfer of a road segment to another government following annexation; and 3) to adjust for other errors in the assignment of capital costs.

The restatement in government-wide beginning net assets is also due to the retroactive implementation of a change in reporting entity. In 2007, four Washington state nonprofit corporations each of which are single-purpose entities that were created to assist the County in the development and construction of public buildings are reported as blended component units of the County. A single internal service fund, the Building Development and Management Fund, is used to blend the four nonprofit corporations' activities and balances with the primary government. Prior to the change, the County accounted for the lease agreements it had with these corporations as standard capital leases. The beginning 2007 Net Assets have been restated by adjusting the Net Assets for the difference between the capital lease assets and liabilities reported as of December 31, 2006 with the beginning January 1, 2007 Net Assets reported in the internal service fund.

The following schedules present detailed information regarding restatements of beginning balances (in thousands):

	Governmental Activities	Business-type Activities	Internal Service Funds	Building Development & Management Corporations
Net Assets – December 31, 2006	$ 1,712,797	$ 2,017,249	$ 68,412	$ -
Infrastructure adjustment	(100,988)			
Building Development and				
Management Corporations Changes				
Remove old capital asset value	(121,071)			
Remove old capital lease value	131,750			
Add Building Development & Mgmt.				
Corporations beginning net assets	(5,909)	2,805	(3,104)	(3,104)
2006 Posting Error Correction	(25)			
Net Assets – January 1, 2007	$ 1,616,554	$ 2,020,054	$ 65,308	$ (3,104)

	Nonmajor Special Revenue Funds	Clark Contract Administration Fund	Logan/Knox Settlement Fund	Risk Abatement Fund	Road Improvement Districts Maintenance Fund
Fund Balance – December 31, 2006	$ 120,285	$ 7	$ 1,701	$ 6,020	$ 29
Fund closure		(7)	(1,701)	1,708	
2006 Posting Error Correction	(25)				(25)
Fund Balance – January 1, 2007	$ 120,260	$ -	$ -	$ 7,728	$ 4

NOTE 15 – CONTINUED

Component Unit – Harborview Medical Center (HMC)

Restricted Net Assets

Restricted expendable net assets – The $89,692 thousand consists of investments restricted for capital use and by donor. Access to investments restricted for capital use is restricted by King County for designated capital projects. Investments restricted by donor represent assets that are restricted by creditors, grantors, or contributors external to the HMC.

Restricted nonexpendable net assets – The $1,920 thousand consists of permanent endowments by donors.

Component Unit – Cultural Development Authority of King County (CDA)

Restricted Net Assets

Restricted expendable net assets – $13,664 thousand is restricted by RCW 67.28.180.3 and King County ordinance for use for arts and heritage cultural program awards according to a specified formula.

Restricted nonexpendable net assets – $19,105 thousand is a long-term endowment funded from a portion of the hotel/motel tax pursuant to RCW 67.28.180.3(e) to finance future arts and heritage cultural programs.

NOTE 16 – LEGAL MATTERS, CONTINGENT LIABILITIES, AND OTHER COMMITMENTS

Primary Government

There is no litigation or claim currently pending against King County in which to our knowledge the likelihood of an unfavorable outcome with material damages assessed against the County is considered "probable."

The following litigation, or potential litigation, may involve claims for material damages against King County for which the County is unable to provide an opinion as to the ultimate outcome or the amount of damages that may be found:

- A lawsuit against the County filed by a private transportation operator seeking damages in the amount of $12.4 Million. Plaintiff claims that County transit service violates its rights, under a Certificate of Public Convenience and Necessity, to be sole provider of direct airporter service between downtown Seattle and Sea-Tac International Airport. Early summary judgment motions on liability have been denied.
- Claims for unspecified damages filed against King County by two sewer districts who allege that the County's sewage disposal rates are based on costs improperly incurred by the Wastewater Treatment Division. The County intends to vigorously defend the claim.
- An administrative order from the Environmental Protection Agency (EPA) requiring the County, the City of Seattle, the Boeing Company, and the Port of Seattle to conduct studies that will determine the nature and extent of the contamination in the Lower Duwamish Waterway. Potentially, upon completion of the studies, another administrative order may require remediation. At this stage the type of remediation that will be required, the timetable for complying, and the cost of remediation cannot reasonably be determined.
- A notification from the Washington State Department of Ecology (DOE) proposing that the County, the City of Seattle, and the Boeing Company may be required to help fund the investigation of a County airport property, currently leased to the Boeing Company, to determine the nature and extent of any hazardous waste, to develop a cleanup action plan, and to perform cleanup, if required. The site includes North Boeing Field and the Georgetown Steam Plant. The estimated cost of investigation and assessment is $2.5 million which will be shared equally by the three named parties. The cost of the actual cleanup that may be required and the County's ultimate responsibility have yet to be determined.
- A complaint filed by the City of Seattle against the Boeing Company who in turn has named the County as a third-party defendant. The complaint seeks to recover remediation costs, under the Model Toxic Control Act, in the areas of North Boeing Field, Georgetown Steam Plant, and Slip 4. Through this litigation, it is likely that the County can recover some of the costs of investigating and remediating the Slip 4 area and performing the work in North Boeing Field/Georgetown Steam Plant. Recovery, however, may potentially be offset by the repayment of state grants and the cost of litigation.
- A potential requirement for additional cleanup in the area contaminated when the Denny Way combined sewer outflow was replaced in 2005. The Wastewater Treatment Division has already performed interim cleanup costing $3.6 million to comply with an agreed order from the Washington State Department of Ecology but the federal agency has reserved its rights to require additional or different remedial actions. The County is unable to determine further amounts that Wastewater Treatment Division may be responsible for, if any.
- A complaint filed by the City of Seattle against a private company who in turn has named the County as a third-party defendant. The complaint seeks to recover remediation costs, under the Model Toxic Control Act, for the cleanup in an area along the Lower Duwamish

NOTE 16 – CONTINUED

Waterway that is now the site of Port of Seattle's Terminal 117. The original defendants allege that pollutants (PCBs and petroleum-based) were released during the 1960s when the County or its contractor allegedly transported and disposed of waste pavement materials from King County Airport onto the above referenced site. An additional claim alleges that the County released waste oil containing PCBs onto streets near the site as part of the County's maintenance of those streets. The County denies all claims.

- Potential claims for past and future cleanup costs at the Harbor Island Superfund Site. Certain removal costs already incurred by the Port of Seattle are expected to be defrayed by the County and the City of Seattle. The parties have also agreed to share the cost of a supplemental investigation and feasibility study required by the EPA. The agreement states that Wastewater Treatment Division has a one-third *pro rata* share of the study costs but this can still be reallocated among the several potentially responsible parties. Further remediation costs cannot be reasonably estimated until the studies are completed.
- A proposed class action lawsuit against the County where the plaintiff, representing similarly situated public defenders and their staff, allege that the County should have enrolled them in the State retirement system. The County is vigorously defending the action.

Contingent Liabilities

King County has entered into several contingent loan agreements totaling $93.8 million with the King County Housing Authority (KCHA) and other owners/developers of affordable housing. The County has provided credit support for certain bonds issued by the KCHA. All projects are currently self-supporting and the County has not made any loans pursuant to these agreements.

Other Commitments

The Solid Waste Enterprise paid the County General Fund $7.6 million for annual rent on the Cedar Hills landfill site in 2007. Solid Waste is committed to pay rent as long as the Cedar Hills site continues to accept waste.

Component Unit – Harborview Medical Center

Harborview Medical Center (HMC) is involved in litigation arising in the course of business. It is HMC management's opinion that these matters will be resolved without material adverse effect to HMC's future financial position or results of operations.

The current regulatory environment in the healthcare industry is one of increasing governmental activity with respect to investigations and allegations concerning possible violations of regulations by healthcare providers that could result in the imposition of significant fines and penalties, including substantial repayments of patient services previously billed. HMC believes that it complies with the fraud and abuse regulations, as well as with other laws and regulations. Compliance with such laws and regulations can be subject to future governmental review and interpretation and regulatory actions unknown or unasserted at this time.

HMC is operated by the University of Washington under a management and operations contract with King County. In this contract the University of Washington agrees to defend, indemnify, and "save harmless" King County, its elected and appointed officials, employees, and agents, from and against any damage, cost, claim, or liability arising out of the negligent acts or omissions of the University, its employees or agents, or arising out of the activities or operations of the medical center.

NOTE 17 – SUBSEQUENT EVENTS

Investment Pool

On January 18, 2008, Standard & Poor's temporarily suspended the King County Investment Pool's rating pending the outcome of enforcement events on the four impaired commercial paper investments. Enforcement events involve the winding down of the impaired investments by the trustee with assets being sold to repay debt. The County maintains its senior creditor status on any distribution or restructuring after enforcement.

Newly Created Districts

The King County Flood Control Zone District, created by the Council in 2007, began operations in 2008. The countywide entity replaced twelve separate districts that covered different flood regions within the County. The district will implement the 2006 King County Flood Hazard Management Plan which was developed to fix and improve the County's aging network of levees and revetments that protect residents and businesses, economic activity, and public infrastructure. The program is expected to cost about $335 million over ten years and will be funded through a property tax levy of 10 cents per thousand assessed valuation. The King County Council serves as the *ex officio* Board of Supervisors for the district.

The King County Ferry District, created by the Council in 2007, will also begin operations in 2008 to provide passenger-only ferry service between points within the County. Funding for operations will be through a property tax levy of 5.5 cents per thousand assessed valuation while capital grants, debt, and other sources are expected to fund improvement of docks and pier facilities. The King County Council serves as the *ex officio* Ferry District board.

REQUIRED SUPPLEMENTARY INFORMATION

Condition Assessments and Preservation of Infrastructure Eligible for Modified Approach

Roads

The County performs condition assessments on its network of roads through the King County Pavement Management System. This system generates a Pavement Condition Index (PCI) for each segment of arterial and local access road in the network. The PCI is a numerical index from zero to one hundred (0 – 100) that represents the pavement's functional condition based on the quantity, severity, and type of visual distress, such as pavement cracking. Based on the PCI score, condition ratings are assigned as follows: a PCI of less than 30 is defined as "poor to substandard" (heavy pavement cracking and potholes); a PCI of 30 or more but less than 50 is defined to be in "fair" condition (noticeable cracks and/or utility cuts); and a PCI of between 50 and higher is defined to be in "excellent to good" condition (relatively smooth roadway). Condition assessments are undertaken every three years.

The most recent condition assessments of the County's roads are shown below.

	2007-2005		2004-2002		2001-1999	
Condition ratings	**(miles)**	**%**	**(miles)**	**%**	**(miles)**	**%**
Arterial roads						
Excellent to good	485.4	89.6	442.9	81.7	451.1	83.0
Fair	14.5	2.7	61.1	11.3	44.5	8.2
Poor to substandard	41.6	7.7	38.0	7.0	47.6	8.8
Total	541.5	100.0	542.0	100.0	543.2	100.0
Local access roads						
Excellent to good	1,094.5	83.4	1,075.4	81.6	1,031.1	80.0
Fair	127.3	9.7	139.0	10.6	132.3	10.3
Poor to substandard	91.2	6.9	102.9	7.8	125.5	9.7
Total	1,313.0	100.0	1,317.3	100.0	1,288.9	100.0

It is the policy of the King County Road Services Division to maintain at least 80 percent of the road system at a PCI of 40 or better. The following table (derived from the table of condition ratings) shows the number and percentage of miles of roads that meet the 40 PCI level.

	2007-2005		2004-2002		2001-1999	
PCI score interval	**(miles)**	**%**	**(miles)**	**%**	**(miles)**	**%**
Arterial roads						
PCI 40 - 100	493.4	91.1	475.6	87.7	477.8	88.0
PCI 0 - 39	48.1	8.9	66.4	12.3	65.4	12.0
Total	541.5	100.0	542.0	100.0	543.2	100.0
Local access roads						
PCI 40 - 100	1,170.3	89.1	1,165.6	88.5	1,108.3	86.0
PCI 0 - 39	142.7	10.9	151.7	11.5	180.6	14.0
Total	1,313.0	100.0	1,317.3	100.0	1,288.9	100.0

REQUIRED SUPPLEMENTARY INFORMATION – continued

The majority of roads that fall below the established rating (PCI = 40) are local access roads that are situated in rural areas.

Below is information on planned (budgeted) and actual expenditures incurred to maintain and preserve the road network at or above the minimum acceptable condition level from 2003 to 2007. The budgeted amount is equivalent to the anticipated amount needed to maintain roads up to the required condition level (in thousands). The amounts reported for prior years (2003-2006) were revised upward from those reported in the 2006 CAFR because certain infrastructure activities previously considered capital were actually preservation or maintenance under the modified approach.

	2007	2006	2005	2004	2003
Budgeted	$61,864	$58,709	$49,321	$48,008	$49,719
Expended	51,859	49,029	39,986	38,093	41,946

amounts for 2003-2006 restated

Underspending of budgeted amounts usually results when roads are removed from the project list because of conflicts with anticipated utility work; lowering of priority due to cost efficiency considerations, such as when only a few roads are to be resurfaced in remote locations; and weather-related work reduction or stoppages.

Bridges

King County currently maintains 184 bridges. Physical inspections to determine the condition of bridges and the degree of wear and deterioration are carried out at least every two years. Inspections reveal deficiencies in bridges such as steel corrosion, damaged guardrails, rotten timbers, deteriorated bridge decks, bank erosion, and cracked concrete. These are documented in an inspection report along with recommended repairs and needed services. Five pedestrian bridges are included in the list of bridges being maintained by the County. These are also subject to condition assessments but under different standards as the more heavily used vehicular bridges.

Each year the County undergoes a bridge prioritization process to determine potential candidates for replacement or rehabilitation. A weighted 10-point priority scale (sufficiency rating, seismic rating, geometrics, hydraulics, load limits, traffic safety, serviceability, importance, useful life, and structural concern) ranks the bridges in order; the results are considered in the planning and programming of major bridge studies and construction projects in the Roads Capital Improvement Program.

A key element in the priority score is the sufficiency rating, the measure considered by state and federal governments as the basis for establishing eligibility and priority for bridge replacement or rehabilitation funding. The sufficiency rating is a numerical rating of a bridge based on its structural adequacy and safety, essentiality for public use, and its serviceability and functional obsolescence. The formula used to calculate the sufficiency rating for a particular bridge is dictated by the Federal Highway Administration and is built into the State's inspection software. The software used by the State was upgraded in 2007 and now calculates the sufficiency rating more accurately than the past versions. The sufficiency rating may vary from 100 (a bridge in new condition) to 0 (a bridge incapable of carrying traffic). A sufficiency rating of 50 or over indicates a bridge with a good deal of service life remaining. A bridge that scores between

REQUIRED SUPPLEMENTARY INFORMATION – continued

0 and 49 could be considered for replacement or rehabilitation funding, though typically only bridges that score less than 30 are selected for funding.

Below are the three most recent bridge sufficiency ratings.

	Number of Bridges		
Bridge sufficiency rating	2008*	2006	2004
0 - 20	6	6	9
21 - 30	2	2	2
31 - 49	18	20	20
50 - 100	158	159	156
Totals	184	187	187

* updated for bridges inspected as of 12/31/07

It is the policy of the King County Road Services Division to maintain bridges in such a manner that no more than 12 will have a sufficiency rating of 20 or less. A rating of 20 or less is usually indicative of a bridge with a structural deficiency. The most common remedy is full replacement or rehabilitation of the bridge.

Amounts budgeted and spent to maintain and preserve bridges from 2003-2007 are shown in the table below (in thousands). The amounts reported for prior years (2003-2006) were revised upward from those reported in the 2006 CAFR because certain infrastructure activities previously considered capital were actually preservation or maintenance under the modified approach.

	2007	**2006**	**2005**	**2004**	**2003**
Budgeted	$24,834	$17,024	$26,855	$17,074	$16,376
Expended	16,189	11,526	16,810	12,529	8,448

amounts for 2003-2006 restated

The budgeted amount is equivalent to the anticipated amount needed to maintain and preserve the bridges up to the required condition level. Generally, backlogs in maintenance work orders greatly affect the trend in maintenance costs. Such backlogs could result from increased bridge traffic, higher weight loads, labor shortages, stringent environmental restrictions, and an aging inventory.

King County